

Report No. 4

REPORT ON
FRINGE BENEFITS OF STATE EMPLOYEES

North Carolina
Legislative Research Commission

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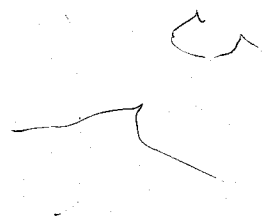


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Introduction

This Commission was directed by an unnumbered House Resolution, adopted on June 11, 1965, "to study fringe benefits offered to State Employees and to report its findings and recommendations to the 1967 General Assembly."

By "fringe benefit" in this instance is meant any benefit of value, deriving from expenditure by the employer and accruing to the employee, which is not a part of his approved pay schedule. The term includes vacation time, holidays, sick leave, retirement benefits, and various insurance plans to which the employer contributes.

The ratio of fringe benefits to direct compensation has grown very markedly since World War II among both governmental and private employers. The reasons for this increase are several: legally required programs (such as Old Age and Survivors Insurance, and workmen's compensation) account for part of it; competitive conditions and the relative tax advantage of some fringe benefits by comparison with direct compensation are also factors. In 1966, the value of fringe benefits provided employees of the State of North Carolina equaled about 25 per cent of their direct compensation.

The State Personnel Director and members of the staff of the State Personnel Department, the Chairman of the State Personnel Board, and the Executive Secretaries of the two major associations of state employees appeared before this Commission at various times and gave helpful information and advice.

Study

At our request, the State Personnel Director undertook an extensive study to determine how the fringe benefits offered by the State of North

Carolina compare with those offered by other governmental and private employers. He found that in general the fringe benefits offered by the State to its employees are about in line with those offered by private employers, but that the mix or distribution of benefits is significantly different -- the State provides more paid, non-working days (vacations and holidays) than does the typical private employer; the latter often has a profit sharing plan, bonuses or other direct economic benefit programs. The State does not provide any programs supported by State contributions for life and hospitalization insurance while many private employers do.

The full text of the report on this study is attached as Appendix B of this report.

Conclusions

The State Personnel Department included in its Report to the Commission certain "Suggestions for Consideration," which indicate the desirability of further study of this subject by the Department.

It is the conclusion of this Commission that, in the absence of any particular complaint about the present scheme of fringe benefits or of any specific recommendation for its improvement, no action by this Commission is warranted. We commend the attached report, entitled "A Report of the North Carolina State Personnel Department to the Legislative Research Commission," to the attention of the members of the General Assembly, who will be interested in the information it contains on fringe benefit programs offered by the State and by other employers.

We observe that the state employees often appear to be insufficiently aware of the nature and extent of the fringe benefits that the State provides for them. We suggest to the State Personnel Department and the

employee organizations the desirability of conducting a more intensive program of information on the fringe benefits provided for state employees and the advantages they offer the employee.

Recommendation

We recommend that the members of the General Assembly give careful study to the attached report on fringe benefits, prepared by the State Personnel Department.

Appendix A

HOUSE RESOLUTION

A HOUSE RESOLUTION DIRECTING THE LEGISLATIVE COUNCIL OR ITS SUCCESSOR TO STUDY AND MAKE RECOMMENDATIONS RELATING TO THE FRINGE BENEFITS OFFERED TO STATE EMPLOYEES.

Be it resolved by the House of Representatives:

Section 1. That the Legislative Council or its successor is hereby directed to study fringe benefits offered to State Employees and to report its findings and recommendations to the 1967 General Assembly.

Sec. 2. This Resolution shall become effective upon ratification.

[Adopted by the House of Representatives June 11, 1965.]

Appendix B

A REPORT OF THE NORTH CAROLINA STATE PERSONNEL DEPARTMENT TO THE LEGISLATIVE RESEARCH COMMISSION

The material presented in this report represents several months of study and consideration of the current problems and practices in the area commonly known as "fringe benefits."

The Personnel Department staff has studied data and information from the United States Chamber of Commerce and similar associations and organizations, the United States Department of Labor and other government agencies, articles and data from professional publications and statements.

This report represents the best judgments we have been able to draw from the total study and a statement of North Carolina State Government practice by comparison. Opinions are not necessarily intended to denote adequacy or inadequacy of a specific benefit, but rather to provide a reasonable basis for the determination of changes or alterations which might be considered now or in the future. The extensive material which was used in making these judgments can be made available to affirm the soundness of the conclusions.

The term "fringe benefit" has quite generally been used to denote any benefit of value derived from an expenditure provided by the employer and accruing to the employee but which is not a part of the employees' approved pay schedule.

Modern fringe benefit programs cannot be isolated from other factors that contribute to satisfactory employee recruitment, stability, and proficiency. Certain benefits are of little economic value to the employee, but contribute to the employee's basic physical, mental and recreational needs, as in the case of holidays and annual leave. Others affect significantly the employee's economic needs and resources as is the case with deferred income which is provided by retirement plans and pensions and protection against unexpected expense and loss which is provided by life insurance, unemployment insurance, sick leave and wage continuation insurance, and hospitalization and major medical insurance.

Since certain payments made by the employer for the benefit of the employee are not considered as a part of taxable income, money put into some types of benefits may produce more take-home-pay for the employee than a similar amount put into direct salary. It is advisable to draw conclusions concerning any specific benefit only after full consideration of its relationship to the total employee compensation plan.

LEGALLY REQUIRED BENEFITS

State employees in North Carolina are covered by both Old Age and Survivors' Insurance and Workman's Compensation. They do not have the benefit of Unemployment Insurance legally required for most private employers. The Federal Government and a few states provide this latter coverage for their employees.

ANNUAL OR VACATION LEAVE .

The study shows that the average American employee receives one to two weeks of vacation for the first three to five years of employment; three weeks

after ten to fifteen years; and in some instances, four weeks after fifteen to twenty years. There has been some indication that the Southern worker did not fare so well but these differences are rapidly dissipated by the advent of new industry and the industrial trend toward a reasonable period of rest and recreation for all employees.

There is a noticeable difference in the vacation time of production workers and employees in other types of employment. Generally, office, supervisory, or professional workers are provided two weeks of leave during the early years and after five to ten years, receive three weeks. Usually, such leave must be taken during the year for which it is provided in order that the intended benefit of obtaining rest and recreation will be accomplished.

Traditionally, employees of government have received more liberal treatment in leave. Employees of other states receive from two to three weeks during the early years of employment. When two weeks is initially provided, this increases to three weeks after three to five years, and in some instances to four weeks after ten to twenty years of employment. States generally allow an accumulation of four to six weeks of leave. Such accumulation frequently provides a substitute for a more definite policy of providing separation or terminal pay.

North Carolina provides three weeks of vacation leave for all permanent, full-time employees which may be accumulated to six weeks.

SICK LEAVE

A substantial majority of all employees are provided protection against some of the economic hazards of illness. This protection is offered by a variety of methods such as sick leave, sickness and health insurance (hospitalization, major medical and salary continuation) or a combination of the leave and insurance plans. The growing trend in this area is to integrate a program of a limited amount of sick leave with a plan for sickness and accident insurance and long-term salary continuation insurance to provide for both short and long-term absence due to sickness or accident.

Other State governments provide two to three weeks of sick leave per year which may be accumulated up to ninety to one-hundred and twenty days, or in some cases, without limit.

North Carolina provides two weeks of paid sick leave annually which may be accumulated indefinitely.

NOTE: The comments in this section should be considered along with the section captioned - Insurance - since sick leave plans are, in reality, a method of self insurance for sickness or disability.

HOLIDAYS

The average employee receives six to eight holidays per year with wide variations from this average. Other states provide their employees nine to fourteen

or more days.

North Carolina provides nine or ten days, depending on the number granted at Christmas.

INSURANCE

Hospitalization and Major Medical

Major employers, almost without exception, as well as the Federal Government, provide group hospitalization and related benefits and bear a substantial part or all of the cost. In many instances, they also pay a substantial part or all of the costs for the employees' dependents. While states have been slow to accept this practice, more than 50% of the states now provide these employer-supported programs for State employees.

With the exception of some law enforcement officers, North Carolina does not offer such a program.

Life Insurance

Most major employers and the Federal Government provide and pay for a part or all of the cost of life insurance programs based on flat amounts or a ratio of life insurance to earnings. More than one-third of the states now offer cost-supported group life insurance to their employees and others have such plans under serious consideration.

North Carolina offers no State-supported life insurance plan with the exception of some law enforcement officers.

NOTE: This section is referred to under the section captioned - Retirement.

SALARY CONTINUATION INSURANCE FOR SICKNESS OR ACCIDENT

While this benefit is offered by a significant portion of major employers, it lacks the usual acceptance of hospitalization benefits and life insurance programs. Generally, where such programs have been adopted they apply to only short-term disability (thirteen weeks to two years) unless the employee was eligible for disability benefits under an established retirement program. Usually, retirement programs provide for disability benefits only after a prescribed period of employment (10, 15 years or more.)

There now appears to be a trend among private employers to shift from short-term disability to long-term disability plans and to use sick leave as a method of self-insurance for short-term disability.

North Carolina provides a limited self-insuring plan, (10 days of sick leave per year which may be accumulated indefinitely) and disability retirement for employees after ten years of service. North Carolina does not provide any type of salary continuation insurance for sickness or accident with the exception of provision for some law enforcement officers.

RETIREMENT AND PENSIONS

No area of employee security has received more attention than retirement problems during the last two decades. Beginning with the advent of the Social Security system and particularly after World War II, nearly all employers of consequence began the consideration of plans to supplement the benefits offered by Old Age and Survivors' Insurance. Methods of funding these plans differ widely with the employer assuming the total cost in many of them. These plans are largely designed to provide in combination with Old Age and Survivors' Insurance from 50% to 66 2/3% of an employee's average salary during some period immediately preceding his retirement if the employee has worked for the employer for long periods such as 25, 30, or more years. Lesser amounts supplement Old Age and Survivors' Insurance payments if the employee has not worked for such long periods.

Most plans provide for a disability retirement of some type after a period such as 10, 15, or 20 years. These disability plans are based on a variety of combinations of actuarial equivalents, employer contributions, and long-term salary continuance insurance.

North Carolina provides a retirement plan integrated with Old Age and Survivors' Insurance with contributions by the State and the employee. Both the State and the employee contribute the amount required for Old Age and Survivors' Insurance. The employee contributes to the retirement fund 4% of the portion of compensation not in excess of \$5600 and 6% of the portion in excess of that amount. The State provides an amount equal to the normal contribution of the employee and an additional amount known as the "accrued liability contribution." This total amount for 1965 is 7.62% of the employee's compensation.

The retirement system provides disability retirement after ten years of service, vesting of retirement rights after fifteen years' service and retirement at age 60 with a variety of options. Generally, an employee 65 years of age with 30 years of creditable service would receive a total of slightly more than 50% of his annual salary from Social Security and the Retirement System.

Other than return of the employee's contribution with interest, no provision is made for any protection of the employee's dependents if death occurs prior to retirement and selection of an option. (See section captioned - Life Insurance.)

NOTE: Certain State employees are covered by the Law Officers Benefit and Retirement fund which may be more liberal in some of its benefits than the Teachers and Employees Retirement System.

OTHER BENEFITS

Many private employers offer employee benefits such as discounts on goods or services, separation or terminal pay, profit sharing, special bonuses or awards, educational benefits, contributions to thrift plans, discounts on company stock, etc. which, for the most part, are not possible in the governmental structure.

SUMMARY

Tables 1 and 2 are designed to give some comparisons of benefits received by employees of North Carolina and those prevalent in private industry and other State governments. These data for private industry include only non-supervisory employees and working supervisory employees and exclude such groups as administrative, technical, and research groups.

It seems logical to reach certain general conclusions from this information.

1. The total of benefits offered employees of the State of North Carolina are not inconsistent with those offered in private industry. However, there is a great difference in benefits of economic value (private industry 10.87% of payroll, State 7.62% of payroll) and particularly in insurance (private industry 3% and State 0%.) Another inconsistency exists in payment for time not worked (private industry 7.7% and State 12.5%) (Table 1)
2. The benefits offered by North Carolina compare favorably with the benefits offered by other states except in the area of life insurance and hospitalization insurance. (Table 2)

TABLE 1

COMPARISON OF FRINGE BENEFITS OTHER THAN O.A.S.I. AND WORKMENS COMPENSATION
AS AN ESTIMATED PERCENTAGE OF PAYROLL (1)

	U.S. (2)			N.C.	
	ALL	MFG.	NON MFG.	(3) ACTUAL	(4) AVAIL.
*1. Payments for time not worked	7.7	7.2	8.7	12.5	13.74
a. paid vacation or bonuses in lieu	4.1	4.2	4.1		5.77
b. payment for holidays	2.6	2.4	2.7		3.46
c. payment for sick leave	0.7	0.4	1.4		3.84
d. miscellaneous and petty leave	0.3	0.2	0.5		.67
**2. Retirement and Pensions other than O.A.S.I. not covered by insurance type plan	3.7	2.8	5.5	7.62 ⁽⁵⁾	7.62 ⁽⁵⁾
**3. Insurance, life, death, sickness, accident, medical, hospitalization, etc.	3.0	3.3	2.4	00	00
**4. Unemployment insurance (6)	1.87	1.87	1.87	00	00
**5. Other Benefits	2.3	1.8	3.1	00	00
a. discounts, meals, etc.	.5	.2	.8		
b. profit sharing	1.1	1.0	1.3		
c. special bonuses or payments	.4	.4	.6		
d. miscellaneous, terminal pay, thrift plans, etc.	.3	.2	.4		
Totals	18.57	16.97	21.57	20.12	21.36
*Total Benefits for Employees' Health, Mental or Recreational Needs	7.7	7.2	8.7	12.5	13.74
**Total Benefits of immediate or deferred economic value	10.87	9.77	12.87	7.62 ⁽⁵⁾	7.62 ⁽⁵⁾

- (1) OASI and Workmen's Compensation data not included since benefits are the same for State or private employees. OASI is difficult to express in a meaningful way as percentage of payroll since it is based on only the first \$6600 of salary or wages. No figures are available as to State's actual cost for Workmen's Compensation which is self-insured and paid from salary accounts.
- (2) Data from U.S. Chamber of Commerce study of 1181 companies representing a cross-section of American Industry (1965). These data are generally corroborated by similar studies by the U.S. Department of Labor.
- (3) Leave use based on experience of two large State agencies who maintain such data. (1965)
- (4) Total amount available under present law and regulations. (1965)
- (5) Includes the states "normal contribution" and the "accrued liability contribution."
- (6) Average contribution by N.C. Employers to Employment Security Commission of N.C. (1965) plus .4% contribution to Federal Government for administration.

TABLE 2

COMPARISON OF FRINGE BENEFITS OFFERED BY THE STATES (1)

A. COMPARISON OF STATE LEAVE AND HOLIDAY PLANS

ANNUAL LEAVE	ALL STATES	NORTH CAROLINA
Average days earned per month	1.06	1.25
Average maximum accumulation	29.36	30
Average maximum payment	31.34	30
SICK LEAVE		
Average days earned per month	1.14	.833
Average maximum accumulation	91	Unlimited
14 states have no limit		
38 states do not pay for leave on separation		
3 states make partial payment on retirement		
1 state credits accrual to service credits in retirement system		
1 state makes partial payment on resignation		
HOLIDAYS		
Average	10.25	9 to 10

B. COMPARISON OF STATE INSURANCE COVERAGE

	HOSPITALIZATION	LIFE
State pays total cost	8	4
State pays part of cost	19	13
Employee pays total cost	13	16
No plan reported	10	17

C. RETIREMENT AND PENSIONS

Due to the variety of types of systems among the states, it is difficult to provide averages or exact comparisons. Generally the North Carolina Teachers and State Employees Retirement System compares favorably with other states with comparable economic patterns. However, this is an area of constant improvement among governmental jurisdictions as well as private industry.

D. AVERAGE WORKWEEK

WORKWEEK	NO. OF STATES
40	33
38.75	1
37.75	1
37.50	11
35.50	1
35	3
Average workweek	38.99

(1) Data are from a study by Kentucky Department of Personnel (August, 1966) and generally confirmed by data from numerous other studies.

SUGGESTIONS FOR CONSIDERATION

Consideration should be given to revisions in the fringe benefits package provided for State employees with the following purposes in mind: (1) to provide for State employees the maximum benefit from money expended by the State whether in direct salary or in fringe benefits; (2) to provide benefits which are more attractive to the employees and the prospective employees in order that the State may obtain the maximum advantage in the recruitment and retention of good employees.

Our study indicates that a very large part of the portion of the compensation for State employees which is provided in the form of fringe benefits is devoted to payment for time not worked. Traditionally, employees of State governments have received paid leave greater than those offered by private industry. Careful reconsideration should be given to the value which the employee attaches to such time as compared with the cost to the State. The leave plans of most private industries provide for progressive increases in the leave benefits based on tenure. The conclusion seems likely that a reduction in the amount of leave to bring it more nearly in line with the practices of private industry, coupled with the provision for increased economic benefits which could be purchased with the same expenditures might be desirable.

The State provides for sick leave to be accumulated without limit. This policy has a possibility of creating a rather large obligation against the salary account monies of an agency. The accumulation feature of sick leave does not necessarily provide true disability protection for the employee, since there is no provision for distribution of the risks. An employee experiencing above average loss would be unprotected; whereas, the employee fortunate enough to avoid illness and disability is provided with a benefit which he may not use. Continuing study should be made of the present sick leave plan and the possibility of combining a more limited leave provision with some type of salary continuation insurance plan to provide more adequate long-term protection for employees who are not eligible for disability retirement from the Retirement System or Social Security.

Obviously, State government cannot offer such economic benefits as profit sharing, discounts or special bonuses. These benefits can be offset by the maintenance and continuing improvement of the retirement system and the development of insurance programs. North Carolina is deficient in comparison with private industry and other states in failing to provide programs supported by employer contributions for life and hospitalization insurance. These programs should receive serious consideration at an early date.