

The Grand Bargain Is Still Dead

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Shortly after we published our report, **“The Grand Bargain is Dead: The Compensation of State Government Workers Far Exceeds Their Private-Sector Neighbors,”** in July 2010, we received a single critique based on our decision to exclude the employer’s share of the Social Security tax from the yearly and lifetime cost of the Median Private Employee. More recently, we received criticism that our calculation concerning longevity pay was erroneous. After conducting additional research on that issue, we have concluded that our calculation was, indeed, wrong.¹

Pursuant to our “Commitment to Quality Scholarship” pledge, therefore, we feel it is important to publish the corrected figures that resolve both criticisms. This correction is even more important now that the issue of government compensation reform is likely to be addressed as part of eliminating Ohio’s \$8.4 billion budget deficit. We want to make sure that our public officials have the right data. We also want to thank our critics for ensuring that we meet our own quality standards.

Critically, our projection that realigning state government compensation to the private sector could save \$2.1 billion in the next budget remains accurate, as those projections did not rely upon the longevity pay projections. Instead, those projections used the actual 2009 W-2 state worker data and health care cost data. In fact, with the more accurate longevity pay data and the current private sector 401(K) employer contribution match of 4 percent (we initially used 5 percent, which was too high), we now project the estimated savings to be nearly \$2.3 billion, which could be done without a single layoff or service disruption to vulnerable populations in need of vital government services. For details, please see Table 1.

Similarly, the overall thrust of the report – that the compensation of state government workers far exceeds their private-sector neighbors – remains correct. Specifically, the Median State Worker base wage is based on the actual W-2 state worker data from 2003-2008 and, even with the longevity pay correction, the Median State Worker still costs 45 percent more than his private sector peer over a 30-year career. For a specific breakdown, please see Tables 2-5.

Finally, other than entrenched interests, defenders of the status quo dwindle each passing day. Since January 2000, Ohio’s private sector ranks have decreased by 601,500 net jobs (the 2nd most in America) compared to a net decrease of only 800 government jobs. With such a weak economy, we simply cannot afford to pay so many government workers as generously as we have been paying them. Realigning government pay to reflect the realities of the private sector is a must.

¹ In the original report, our wage calculation treated the longevity pay as a compounding component. In the course of drafting the report, Dr. Matthew Marlin twice confirmed that his understanding on how longevity pay worked was correct. Unfortunately, through no fault of his or the individuals he talked to, it appears, like the famous two ships Peerless passing in the night, they didn’t fully understand each other.

**Table 1:
Two-Year Estimated State Budget Realignment Savings***

| Compensation | Year One | Year Two | Total |
|--|------------------------|------------------------|------------------------|
| Wages (19.73% Across-the-Board Cut) | \$639,889,878 | \$639,889,878 | \$1,279,779,756 |
| Retirement (Reducing Employer Share from 14% to 4%) | \$324,323,303 | \$324,323,303 | \$648,646,606 |
| Health (Increasing Employee Premium from 17% to 23%) | \$43,980,467 | \$43,980,467 | \$87,960,934 |
| Sick Pay (Reduce from \$1,541 to \$395) | \$70,038,044 | \$70,038,044 | \$140,076,088 |
| Longevity (Eliminate) | \$57,590,000 | \$57,590,000 | \$115,180,000 |
| Total | \$1,135,821,692 | \$1,135,821,692 | \$2,271,643,384 |

*Across-the-board realignment adjustments of government compensation packages also would substantially reduce government costs at the local level and in higher education, and forestall or significantly reduce projected deficits, layoffs, and/or program cuts. These realignment adjustments would have a positive impact on the \$1 billion Local Government Fund in the state budget and the individual budgets of each local government entity. For example, the 33 school districts in Cuyahoga County currently project an aggregated deficit in 2015 of \$1.043 billion and expect personnel costs to absorb roughly 97% of projected revenues. Because personnel costs swallow 77 percent of expenditures, to eliminate or reduce this enormous projected deficit, those school districts will have to raise property taxes on Cuyahoga County homeowners by over \$1 billion. Alternatively, if an across-the-board 10% realignment adjustment is made to personnel costs for 2011 and future increases are tied to a 3.2% inflation rate, the \$1.043 billion deficit shrinks to a far more manageable \$114 million in 2015.

**Table 2:
Total Lifetime Cost
Median Employee
30 Years Service (Not Discounted)**

| Compensation | State Employee | Private Employee | Difference |
|---------------------|-----------------------|-------------------------|-------------------|
| Wages | \$1,899,000 | \$1,232,000 | \$667,000 |
| Retirement | \$266,000 | \$49,000 | \$217,000 |
| Social Security | \$0 | \$94,000 | (\$94,000) |
| Health | \$685,000 | \$584,000 | \$101,000 |
| Sick Pay | \$82,000 | \$16,000 | \$66,000 |
| Total | \$2,932,000 | \$1,975,000 | \$957,000 |

**Table 3:
Total Lifetime Cost
Median Employee
30 years service (Discounted Present Value)**

| Compensation | State Employee | Private Employee | Difference |
|---------------------|-----------------------|-------------------------|-------------------|
| Wages | \$1,022,000 | \$689,000 | \$333,000 |
| Retirement | \$143,000 | \$28,000 | \$115,000 |
| Social Security | \$0 | \$53,000 | (\$53,000) |
| Health | \$357,000 | \$304,000 | \$53,000 |
| Sick Pay | \$44,000 | \$9,000 | \$35,000 |
| Total | \$1,566,000 | \$1,083,000 | \$483,000 |

**Table 4:
Total Lifetime Cost - Median State Employee**

| | | Wage | Pension | Heath | Sick | Total | PV of Total |
|--------------|----|--------------------|------------------|--------------------|------------------|--------------------|--------------------|
| 2009 | 22 | \$36,858 | \$5,160 | \$10,312 | \$1,581 | \$53,911 | \$53,911 |
| 2010 | 23 | \$36,858 | \$5,160 | \$10,828 | \$1,585 | \$54,431 | \$52,337 |
| 2011 | 24 | \$36,858 | \$5,160 | \$11,369 | \$1,585 | \$54,972 | \$50,825 |
| 2012 | 25 | \$38,207 | \$5,349 | \$11,937 | \$1,643 | \$57,136 | \$50,794 |
| 2013 | 26 | \$39,605 | \$5,545 | \$12,534 | \$1,703 | \$59,387 | \$50,765 |
| 2014 | 27 | \$41,976 | \$5,877 | \$13,161 | \$1,805 | \$62,819 | \$51,633 |
| 2015 | 28 | \$43,663 | \$6,113 | \$13,819 | \$1,878 | \$65,473 | \$51,744 |
| 2016 | 29 | \$45,405 | \$6,357 | \$14,510 | \$1,952 | \$68,224 | \$51,845 |
| 2017 | 30 | \$47,204 | \$6,609 | \$15,236 | \$2,030 | \$71,078 | \$51,936 |
| 2018 | 31 | \$49,062 | \$6,869 | \$15,997 | \$2,110 | \$74,038 | \$52,018 |
| 2019 | 32 | \$50,981 | \$7,137 | \$16,797 | \$2,192 | \$77,108 | \$52,091 |
| 2020 | 33 | \$52,964 | \$7,415 | \$17,637 | \$2,277 | \$80,294 | \$52,157 |
| 2021 | 34 | \$55,013 | \$7,702 | \$18,519 | \$2,366 | \$83,599 | \$52,216 |
| 2022 | 35 | \$57,129 | \$7,998 | \$19,445 | \$2,457 | \$87,029 | \$52,267 |
| 2023 | 36 | \$59,317 | \$8,304 | \$20,417 | \$2,551 | \$90,589 | \$52,313 |
| 2024 | 37 | \$61,578 | \$8,621 | \$21,438 | \$2,648 | \$94,285 | \$52,353 |
| 2025 | 38 | \$63,915 | \$8,948 | \$22,510 | \$2,748 | \$98,121 | \$52,388 |
| 2026 | 39 | \$66,330 | \$9,286 | \$23,635 | \$2,852 | \$102,104 | \$52,418 |
| 2027 | 40 | \$68,828 | \$9,636 | \$24,817 | \$2,960 | \$106,240 | \$52,443 |
| 2028 | 41 | \$71,410 | \$9,997 | \$26,058 | \$3,071 | \$110,536 | \$52,465 |
| 2029 | 42 | \$74,079 | \$10,371 | \$27,361 | \$3,185 | \$114,997 | \$52,483 |
| 2030 | 43 | \$76,791 | \$10,751 | \$28,729 | \$3,302 | \$119,572 | \$52,472 |
| 2031 | 44 | \$79,601 | \$11,144 | \$30,165 | \$3,423 | \$124,334 | \$52,463 |
| 2032 | 45 | \$82,515 | \$11,552 | \$31,674 | \$3,548 | \$129,288 | \$52,456 |
| 2033 | 46 | \$85,535 | \$11,975 | \$33,257 | \$3,678 | \$134,445 | \$52,450 |
| 2034 | 47 | \$88,665 | \$12,413 | \$34,920 | \$3,813 | \$139,811 | \$52,445 |
| 2035 | 48 | \$91,910 | \$12,867 | \$36,666 | \$3,952 | \$145,396 | \$52,443 |
| 2036 | 49 | \$95,274 | \$13,338 | \$38,499 | \$4,097 | \$151,209 | \$52,442 |
| 2037 | 50 | \$98,761 | \$13,827 | \$40,424 | \$4,247 | \$157,259 | \$52,442 |
| 2038 | 51 | \$102,376 | \$14,333 | \$42,446 | \$4,402 | \$163,556 | \$52,445 |
| 2039 | 52 | \$106,123 | \$14,857 | \$44,568 | \$4,563 | \$170,111 | \$52,449 |
| 2040 | 53 | \$110,007 | \$15,401 | \$46,796 | \$4,730 | \$176,935 | \$52,454 |
| 2041 | 54 | \$114,033 | \$15,965 | \$49,136 | \$4,903 | \$184,038 | \$52,461 |
| 2042 | 55 | \$118,207 | \$16,549 | \$51,593 | \$5,083 | \$191,432 | \$52,470 |
| 2043 | 56 | \$122,533 | \$17,155 | \$54,173 | \$5,269 | \$199,129 | \$52,481 |
| 2044 | 57 | \$127,018 | \$17,783 | \$56,881 | \$5,462 | \$207,144 | \$52,493 |
| 2045 | 58 | \$131,667 | \$18,433 | \$59,725 | \$5,662 | \$215,487 | \$52,507 |
| 2046 | 59 | \$136,486 | \$19,108 | \$62,711 | \$5,869 | \$224,174 | \$52,523 |
| 2047 | 60 | \$141,481 | \$19,807 | \$65,847 | \$6,084 | \$233,219 | \$52,541 |
| 2048 | 61 | \$146,660 | \$20,532 | \$69,139 | \$6,306 | \$242,638 | \$52,560 |
| 2049 | 62 | \$152,027 | \$21,284 | \$72,596 | \$6,537 | \$252,445 | \$52,581 |
| 2050 | 63 | \$157,591 | \$22,063 | \$76,226 | \$6,776 | \$262,657 | \$52,604 |
| 2051 | 64 | \$163,359 | \$22,870 | \$80,037 | \$7,024 | \$273,292 | \$52,629 |
| 2052 | 65 | \$169,338 | \$23,707 | \$84,039 | \$7,282 | \$284,367 | \$52,656 |
| 2053 | 66 | \$175,536 | \$24,575 | \$88,241 | \$7,548 | \$295,901 | \$52,684 |
| 2054 | 67 | \$181,961 | \$25,474 | \$92,653 | \$7,824 | \$307,913 | \$52,714 |
| Total | | \$4,152,699 | \$581,378 | \$1,739,481 | \$178,562 | \$6,652,120 | \$2,406,268 |

**Table 5:
Total Lifetime Cost - Median Private Employee**

| Year | Age | Wage | Pension | SS | Heath | Sick | Total | PV of Total |
|--------------|-----|--------------------|-----------------|------------------|--------------------|-----------------|--------------------|--------------------|
| 2009 | 22 | \$29,586 | \$1,183 | \$2,263 | \$8,783 | \$395 | \$42,211 | \$42,211 |
| 2010 | 23 | \$29,586 | \$1,183 | \$2,263 | \$9,222 | \$395 | \$42,650 | \$41,010 |
| 2011 | 24 | \$29,586 | \$1,183 | \$2,263 | \$9,683 | \$395 | \$43,111 | \$39,859 |
| 2012 | 25 | \$30,314 | \$1,213 | \$2,319 | \$10,167 | \$405 | \$44,418 | \$39,487 |
| 2013 | 26 | \$31,060 | \$1,242 | \$2,376 | \$10,676 | \$415 | \$45,769 | \$39,123 |
| 2014 | 27 | \$31,824 | \$1,273 | \$2,435 | \$11,210 | \$425 | \$47,166 | \$38,767 |
| 2015 | 28 | \$32,607 | \$1,304 | \$2,494 | \$11,770 | \$435 | \$48,611 | \$38,418 |
| 2016 | 29 | \$33,409 | \$1,336 | \$2,556 | \$12,359 | \$446 | \$50,105 | \$38,076 |
| 2017 | 30 | \$34,231 | \$1,369 | \$2,619 | \$12,976 | \$457 | \$51,652 | \$37,742 |
| 2018 | 31 | \$35,073 | \$1,403 | \$2,683 | \$13,625 | \$468 | \$53,252 | \$37,414 |
| 2019 | 32 | \$35,935 | \$1,437 | \$2,749 | \$14,307 | \$480 | \$54,908 | \$37,094 |
| 2020 | 33 | \$36,819 | \$1,473 | \$2,817 | \$15,022 | \$492 | \$56,622 | \$36,781 |
| 2021 | 34 | \$37,725 | \$1,509 | \$2,886 | \$15,773 | \$504 | \$58,397 | \$36,474 |
| 2022 | 35 | \$38,653 | \$1,546 | \$2,957 | \$16,562 | \$516 | \$60,234 | \$36,175 |
| 2023 | 36 | \$39,604 | \$1,584 | \$3,030 | \$17,390 | \$529 | \$62,136 | \$35,882 |
| 2024 | 37 | \$40,578 | \$1,623 | \$3,104 | \$18,259 | \$542 | \$64,107 | \$35,596 |
| 2025 | 38 | \$41,577 | \$1,663 | \$3,181 | \$19,172 | \$555 | \$66,147 | \$35,317 |
| 2026 | 39 | \$42,599 | \$1,704 | \$3,259 | \$20,131 | \$569 | \$68,262 | \$35,044 |
| 2027 | 40 | \$43,647 | \$1,746 | \$3,339 | \$21,137 | \$583 | \$70,452 | \$34,777 |
| 2028 | 41 | \$44,721 | \$1,789 | \$3,421 | \$22,194 | \$597 | \$72,722 | \$34,517 |
| 2029 | 42 | \$45,821 | \$1,833 | \$3,505 | \$23,304 | \$612 | \$75,075 | \$34,263 |
| 2030 | 43 | \$46,948 | \$1,878 | \$3,592 | \$24,469 | \$627 | \$77,514 | \$34,016 |
| 2031 | 44 | \$48,103 | \$1,924 | \$3,680 | \$25,693 | \$642 | \$80,042 | \$33,774 |
| 2032 | 45 | \$49,287 | \$1,971 | \$3,770 | \$26,977 | \$658 | \$82,664 | \$33,539 |
| 2033 | 46 | \$50,499 | \$2,020 | \$3,863 | \$28,326 | \$674 | \$85,382 | \$33,310 |
| 2034 | 47 | \$51,741 | \$2,070 | \$3,958 | \$29,742 | \$691 | \$88,202 | \$33,086 |
| 2035 | 48 | \$53,014 | \$2,121 | \$4,056 | \$31,229 | \$708 | \$91,128 | \$32,869 |
| 2036 | 49 | \$54,318 | \$2,173 | \$4,155 | \$32,791 | \$725 | \$94,163 | \$32,657 |
| 2037 | 50 | \$55,655 | \$2,226 | \$4,258 | \$34,430 | \$743 | \$97,312 | \$32,451 |
| 2038 | 51 | \$57,024 | \$2,281 | \$4,362 | \$36,152 | \$761 | \$100,580 | \$32,251 |
| 2039 | 52 | \$58,426 | \$2,337 | \$4,470 | \$37,960 | \$780 | \$103,973 | \$32,057 |
| 2040 | 53 | \$59,864 | \$2,395 | \$4,580 | \$39,858 | \$799 | \$107,495 | \$31,868 |
| 2041 | 54 | \$61,336 | \$2,453 | \$4,692 | \$41,850 | \$819 | \$111,151 | \$31,685 |
| 2042 | 55 | \$62,845 | \$2,514 | \$4,808 | \$43,943 | \$839 | \$114,949 | \$31,507 |
| 2043 | 56 | \$64,391 | \$2,576 | \$4,926 | \$46,140 | \$860 | \$118,893 | \$31,334 |
| 2044 | 57 | \$65,975 | \$2,639 | \$5,047 | \$48,447 | \$881 | \$122,989 | \$31,167 |
| 2045 | 58 | \$67,598 | \$2,704 | \$5,171 | \$50,870 | \$902 | \$127,245 | \$31,006 |
| 2046 | 59 | \$69,261 | \$2,770 | \$5,298 | \$53,413 | \$925 | \$131,668 | \$30,849 |
| 2047 | 60 | \$70,965 | \$2,839 | \$5,429 | \$56,084 | \$947 | \$136,264 | \$30,698 |
| 2048 | 61 | \$72,711 | \$2,908 | \$5,562 | \$58,888 | \$971 | \$141,040 | \$30,552 |
| 2049 | 62 | \$74,499 | \$2,980 | \$5,699 | \$61,832 | \$995 | \$146,005 | \$30,411 |
| 2050 | 63 | \$76,332 | \$3,053 | \$5,839 | \$64,924 | \$1,019 | \$151,168 | \$30,276 |
| 2051 | 64 | \$78,210 | \$3,128 | \$5,983 | \$68,170 | \$1,044 | \$156,536 | \$30,145 |
| 2052 | 65 | \$80,134 | \$3,205 | \$6,130 | \$71,579 | \$1,070 | \$162,118 | \$30,019 |
| 2053 | 66 | \$82,105 | \$3,284 | \$6,281 | \$75,157 | \$1,096 | \$167,924 | \$29,898 |
| 2054 | 67 | \$84,125 | \$3,365 | \$6,436 | \$78,915 | \$1,123 | \$173,964 | \$29,782 |
| Total | | \$2,360,323 | \$94,413 | \$180,565 | \$1,481,562 | \$31,512 | \$4,148,374 | \$1,575,234 |