

## **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.<sup>1</sup>

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 2<sup>nd</sup> 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.

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<sup>1</sup> 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\***

<b>Compensation</b>	<b>Year One</b>	<b>Year Two</b>	<b>Total</b>
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
<b>Total</b>	<b>\$1,135,821,692</b>	<b>\$1,135,821,692</b>	<b>\$2,271,643,384</b>

\*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)**

<b>Compensation</b>	<b>State Employee</b>	<b>Private Employee</b>	<b>Difference</b>
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
<b>Total</b>	<b>\$2,932,000</b>	<b>\$1,975,000</b>	<b>\$957,000</b>

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

<b>Compensation</b>	<b>State Employee</b>	<b>Private Employee</b>	<b>Difference</b>
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
<b>Total</b>	<b>\$1,566,000</b>	<b>\$1,083,000</b>	<b>\$483,000</b>

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

		<b>Wage</b>	<b>Pension</b>	<b>Heath</b>	<b>Sick</b>	<b>Total</b>	<b>PV of Total</b>
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
<b>Total</b>		<b>\$4,152,699</b>	<b>\$581,378</b>	<b>\$1,739,481</b>	<b>\$178,562</b>	<b>\$6,652,120</b>	<b>\$2,406,268</b>

**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
<b>Total</b>		<b>\$2,360,323</b>	<b>\$94,413</b>	<b>\$180,565</b>	<b>\$1,481,562</b>	<b>\$31,512</b>	<b>\$4,148,374</b>	<b>\$1,575,234</b>