State Government Employment

BACKGROUND

State government in Michigan employs more than 64,000 people, a small percentage of the total state work force of 4.2 million. In fact, local government workers in Michigan (including K–12 schools) outnumber state employees five times.

Number and Distribution

Trends in state government employment are important because they reflect changes in the priorities of state policymakers and the public. The number of state workers and the departments for which they work are a sure reflection of past and current political debate. For example, during the last 20 years, reflecting the increased emphasis on crime and longer punishment, the Department of Corrections work force *rose* 240 percent while total state government employment *declined* by 5 percent.

Exhibit 1 presents the current number and distribution of state government workers in Michigan. Of the roughly 64,000 full-time equated classified state employees, the largest number work for the Department of Corrections: more than 17,000—a little more than one in every four state employees. Next in size is the Family Independence Agency, with about 14,000 employees—slightly less than one in every four state employees. Together, these two departments account for nearly half of state government employment.

EXHIBIT 1. State Government Employment, FY 1997–98

Department	*Number of Full-Time-Equated Employees*	*Percentage of Total*
Corrections	17,219	27%
Family Independence Agency	14,238	22
Community Health	6,621	10
Michigan Jobs Commission	3,226	5
State Police	3,447	5
Transportation	3,223	5
Consumer and Industry Affairs	2,836	5
Natural Resources	2,330	4
Other	10,901	17
TOTAL	64,041	100%

SOURCES: Michigan Department of Management and Budget; Senate Fiscal Agency.

Exhibit 2 summarizes the change in state government employment during the 1990s. During the recession early in the decade, total state government employment declined more than 9 percent; since the recession ended, in 1992, it has remained flat, at about 64,000. Although the state work force expands and contracts to some extent with the economy, overall, state employment essentially has been stable: The size of the state work force of the current fiscal year (1997–98) is nearly identical to that of 20 years ago.

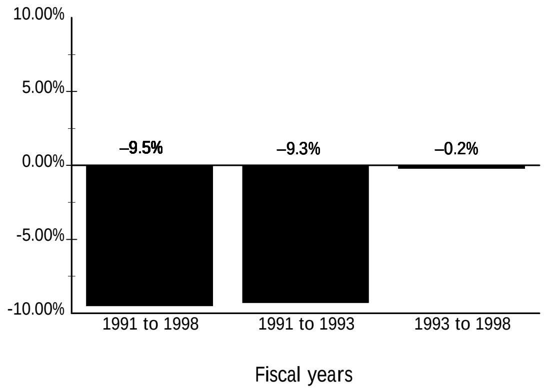
GLOSSARY

Defined-benefit pension system
A retirement plan in which the employer guarantees employees a specific benefit during retirement if they have worked a minimum number of years and reached a certain age. It is the employer's obligation to assure that there is sufficient money in the pension system to fund the defined retirement payments.

Defined-contribution pension system
A retirement plan in which the employer annually contributes a set amount toward the worker's retirement. This annual contribution is invested by the employer at the worker's direction and can be transferred to a new employer. The employer does not guarantee a certain benefit level at retirement; instead, the employee receives whatever money has accumulated in his/her account.

Vest
To confer; in this context refers to the state vesting its employees with full pension rights after a certain number of years of service.

EXHIBIT 2. State Government Employment, Percentage Change, Selected Intervals



SOURCES: Michigan Department of Management and Budget; Senate Fiscal Agency.

Although the *level* of state employment has not changed significantly in the last 20 years, the *composition* has. Exhibit 3 groups state workers into six general categories: human services, general government, regulatory, safety and defense (including corrections), agriculture and natural resources, and transportation. The composition of the state-government work force has changed primarily in two areas.

- The human services category (social services, mental health, and public health) has declined sharply, from comprising 52 percent of state employment in the late 1970s to 33 percent today.
- The safely and defense category (including State Police and Corrections) has increased dramatically, from 13 percent of the total in the late 1970s to 34 percent today; in the Department of Corrections alone, state employment has more than tripled.

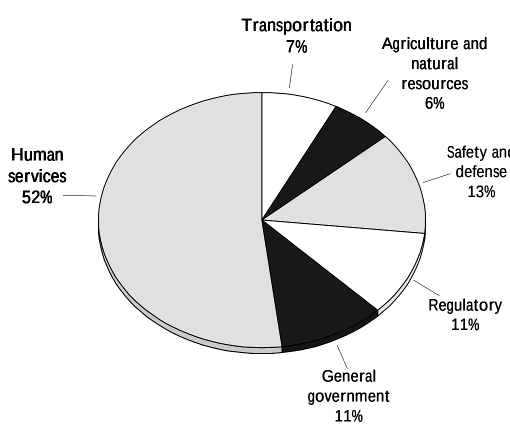
Early Retirement

In 1996 Gov. John Engler announced a short period during which state employees could retire early, before they normally would be eligible; as an incentive, the early retirees were eligible to receive expanded benefits (in most cases, a 13 percent increase in benefits, which they will receive for the rest of their lives).

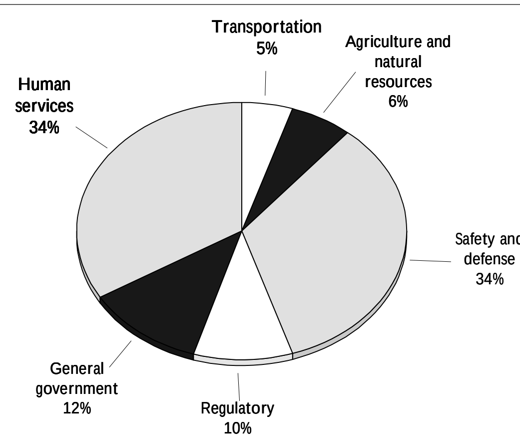
Not surprisingly, many state workers took the early-out option: 5,169, many more than the 3,500 originally projected. State departments initially were not allowed to replace all of the retiring workers, and, as a result, the Department of Management and Budget estimates an annual $50 million budget savings.

EXHIBIT 3. Changing Distribution of State Government Employment, FY 1977–78 and FY 1997–98

FY 1977–78



FY 1997–98



SOURCE: Senate Fiscal Agency.

The ultimate state budget savings will depend, of course, on how many new employees are hired to replace the retirees and the total benefits paid to those who retired early.

Within a short time, the early retirement program reduced state employment sharply. Exhibit 4 shows the number of early retirements by department and as a percentage of total employment in each department. In absolute numbers, the Family Independence Agency lost the largest number of state workers, more than 1,500. In percentage terms, the Department of Transportation lost the most, more than 15 percent of its work force. Statewide, the more than 5,000 state workers who took early retirement represent nearly 8 percent of the work force. Of course, total state employment will not decline by this amount, since many workers are being replaced. In fact, total state employment from FY 1996–97 to FY 1997–98 fell by only 2.4 percent.

Pension System Change

After extensive debate in 1997, Michigan state government moved from a defined-*benefit* pension system to a defined-*contribution* system.

- Under the defined-benefit system, the State of Michigan—like most governments and many private employers—guaranteed that an employee who worked a specified minimum number of years (ten for most state employees, before the system changed) and reached a certain age would be entitled to a specific benefit during retirement. It was the state's obligation, and therefore the state taxpayers', to assure that there was sufficient money in the pension system to fund these defined retirement payments.
- Under a defined-contribution system, the State of Michigan contributes a set amount each year for each employee's retirement. This annual contribution is invested by the state at the worker's direction and may be transferred to a new employer. The state, however, does not guarantee a certain benefit level at retirement; instead, the employee receives whatever money has accrued in his/her account.

EXHIBIT 4. Early Retirement, State of Michigan, 1996

Department	*Number of New Retirees*	*Retirees as a Percentage of Total Employees*
Family Independence Agency	1,527	10.7%
Community Health	770	10.5
Consumer and Industry Services	651	11.7
Transportation	537	15.6
Corrections	229	1.3
Natural Resources	212	9.1
State	156	7.5
Treasury	131	6.8
Other	956	8.3
TOTAL	5,169	7.9%

SOURCE: Michigan Department of Management and Budget.

The state's new pension system applies to all *new* state employees. Existing employees were given the option of converting the expected benefits of their existing retirement plan into a defined-contribution lump-sum payment; they were required to make the decision by April 1998.

DISCUSSION

Early Retirement

Some argue that the early retirement program has imposed an unacceptable drain on the state work force. They point out that most early retirees were upper-level management workers with many years' experience and institutional knowledge. These observers are concerned about the continued quality of government services and the effect the early retirement program is having on the morale of the remaining workers, many of whom may have had to take on additional responsibility.

Others view the early retirement program as an opportunity to streamline government services. They contend that it gives state agencies the opportunity to rethink and perhaps update their mission and reorganize to deliver services more efficiently. In addition, the early retirement program allows mid-level state workers who remain to move up in the system, gaining new responsibility and perhaps bringing fresh perspective to the job.

Change in Pension Benefits

Supporters of changing from a defined-benefits to a defined-contribution system argued that the former was no longer appropriate in today's economy or work environment. They contend that it gave state employees who were close to being "vested" (that is, they had put in the predetermined number of years that would make them eligible for minimum benefits even if they left state government) or near retirement age a strong incentive to stay at their current job, even if an opportunity arose elsewhere. They maintain that this "golden handcuff" was not in the best interest of either employee or state.

Proponents of the change also believe that it is unfair to penalize employees who change jobs periodically during the course of their career. For example, if John Doe works for eight years at each of three different jobs, he probably is not eligible for a pension from any of them, since he did not fulfill the usual ten-year vesting requirement with any one employer. However, if he had spent those 24 years with the same employer, he would have been eligible for a pension. This unequal result may not have been important in the economy of 20–30 years ago, when it was common to work for a single employer for an entire career, but it no longer makes sense in this era of labor mobility and frequent career changes.

Another argument against the defined-benefits system was its effect on state taxpayers. Guaranteeing a specific retirement payment for state workers means that in the event there is a shortfall in pension fund earnings, the public at large must contribute more to fulfill the retirement obligation.

Opponents of the change argued that moving from the defined-benefits system was a cost-cutting move that will unfairly affect people who are dedicating their career to government service. They contend that the reward for many years' service should be the certainty of knowing what one's retirement income will be.

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