The Florida Senate

Interim Project Report 00-51 *September 1999*

Committee on Governmental Oversight and Productivity — Senator Daniel Webster, Chairman

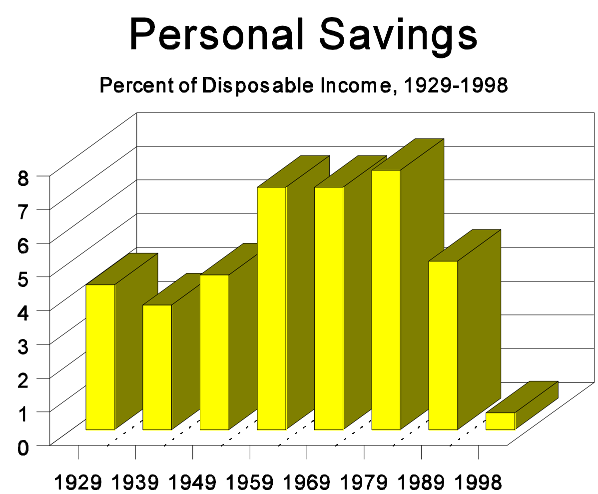
EMPLOYER INCENTIVES FOR EMPLOYEE SAVINGS

SUMMARY

State of Florida agencies offer a wide variety of employee benefit programs with varying combinations of cost-sharing or premium tax-sheltered features. No existing programs create a structure through which the *employer* can encourage employee savings. In light of a sustained national decline in non-pension savings by wage-earners such options can give both intermittent and career employees access to supplemental funds for their retirement with a greater expectation of liquidity than provided in traditional employer pension plans. The report suggests the enhancement of such a plan within the existing framework of the salary reduction plan. The report also recommends changes to the awarding of annual salary increases to create a financial incentive for expanded employee participation both directly, for state employees, and indirectly, for formula-funded local governments.

BACKGROUND

The global economic recovery which has transformed western industrial economies has been widespread but not universal. A telling domestic indicator of this phenomenon can be seen in the progressive decline in non-pension savings: personal savings show negative results for 1999. There are record numbers of U.S. wage-earners who are able to afford more due to lower interest rates, but their appetite for indebtedness shows no abatement. Private companies have long used thrift, or savings, programs as well as stock ownership and profit sharing as part of their total compensation. Such plans are appealing to companies which have high capital needs and are interest rate sensitive. Only recently have public agencies endeavored to replicate such plans within the legal constraints of a tax-supported infrastructure. State and local governments can, however, create their own deferred salary programs for the tax-sheltered treatment of employee wages under Section 457 of the Internal Revenue Code. Many of Florida local governments responding to a survey have done just that. Florida state government has enjoyed a long tradition of benefit compensation. More than one-third of its 1998 total compensation costs consisted of non-salary items. For example, its multi-employer pension plan is provided without cost-sharing to each permanent employee; dually employed spouses enjoy premium-free health insurance coverage; retirees receive



both a 3% cost-of-living allowance on their pensions and a separate cash subsidy for health insurance premiums; and parking is provided without fixed cost recovery and below operating cost. The public employer's assumption of these payroll costs acts to suppress salary compensation. State employees are compensated in the mid-range of the southern states with Florida and the State of Arizona trailing the nation in public employment payroll costs. Low wage service environments provide little capacity for employee savings. Yet it is this lower tier which has been the focus of sustained legislative attempts at salary increases. In 1994, 43% of Career Service employees earned less than $20,000 annually; by 1998 only 14% were below that level. Only 1% of the workforce was making less than $15,000 in 1998 compared with 13% four years earlier.

METHODOLOGY

The report discusses the growth of employer-sponsored savings plans, salient demographic and income characteristics of participants in the Florida Deferred Compensation Program and state employees, generally. Lastly, the report discusses the results of a legislative survey commissioned to explore the impact of such programs among local government agencies.

FINDINGS

Few will quarrel with the importance of savings as a critical component for one's working or retirement years. Personal savings, employer pension, and federal retirement benefits are the triad of financial security. The State of Florida has made concerted attempts at raising salaries of the lowest paid workers, but it is these same workers who are most vulnerable to become wholly dependent upon governmentally provided retirement programs. Yet the state retirement system is not social insurance: pension payments are based solely upon average salaries earned. The salary reduction program known as Deferred Compensation has permitted employees in established and temporary positions alike to set aside 25%, or up to $8000, of salary in a tax-deferred account. Employees contract with state-approved private insurance companies, banks, and mutual funds for the investment of their deferred salaries.

Future Value of $20 Invested Monthly at Varying Return Rates for Three Careers

RATE	21 Y	25 Y	30 Y	RATE
1.75%	$ 6085	$ 7520	$ 9460	1.75%
6.00%	$10057	$13860	$20090	6.00%
8.00%	$13007	$19021	**$29807**	8.00%

The profile of the deferral participant differs markedly from the average state employee. While 100% of the members of the state workforce are compulsory pension plan participants, only 30% are enrolled in the deferral plan. The average state worker earns $28,000 annually while typical salaries for plan participants exceed $41,000. The significance of salary deferrals over a working career, even at the minimum monthly amount of $20, as noted above, can provide the equivalent of one year's salary over a thirty-year career and lessen the resort to employer-provided benefits.

Several hundred counties, municipalities, and school boards were queried through the Joint Legislative Committee on Intergovernmental Relations' facsimile network on their use of sponsored savings plans. Most responding governments indicated an interest but only a few had endeavored to create a savings plan within that benefits system. Many reported use of the salary deferral plans, which a few had used as vehicles for savings incentives. Few of the responding entities indicated any use of mass purchasing power to negotiate lower participant account fees.

RECOMMENDATIONS

Florida law could foster wider participation in employee-owned savings accounts by altering legislative salary policy. A fixed, tax-deferred savings contribution, even only $20 a month, to those at all salary levels complements current legislative salary policy to upgrade the lowest paid employees.

The Legislature should suggest sponsored savings programs as incentives under existing performance-based programs as part of its education-based funding. Performance, certification-based pay, and time-to-graduate incentives are already operational in public settings.

Local governments with Section 457 plans may wish to combine their mass purchasing power to garner the most favorable fees from provider companies. Lower fees increase the net return to each plan participant. Broadly-based purchasing consortia are increasingly common features in the public sector.

COMMITTEE(S) INVOLVED IN REPORT ***(Contact first committee for more information.)***
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MEMBER OVERSIGHT
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