

Topic:

STATE BUDGETS; LAYOFFS; STATE OFFICERS AND EMPLOYEES;

Location:

PUBLIC EMPLOYEES - STATE;



The Connecticut General Assembly

OFFICE OF LEGISLATIVE RESEARCH



February 2, 1995 95-R-0303

TO:

FROM: Judith S. Lohman, Principal Analyst

RE: Cost of State Employee Layoffs

You asked what costs the state incurs when it lays off state workers.

SUMMARY

When the state lays off one of its employees, its savings from the layoff are reduced by termination expenses. The state generally must give between two and eight weeks notice, pay an extra two weeks' salary to make up for the fact that state employees' paychecks are held back for the first two weeks of their employment, pay the laid off employee for any accrued vacation and

compensatory time, and reimburse the state Unemployment Compensation Fund for weekly unemployment compensation benefits the laid off employee collects.

In addition, although fringe benefit costs for state employees add 39.25% to the state's employment cost, the entire cost is not necessarily saved when an employee is laid off. There is a one-year lag in health premium savings because of the way the state pays its health insurance premiums and pension costs are not saved because the state has fixed contributions to make the State Employees Retirement Fund actuarially sound.

These factors mean that, in the first year after laying off the average state employee, the state saves only about half the cost of employing that person. The immediate effect on the state budget is reduced even further when layoffs take place part way through a fiscal year.

LAYOFF SAVINGS

For the state, the cost of employing a state employee is made up of the cost of his annual salary plus fringe benefits. The state's fringe benefit costs are 39.25% of salary. Thus, the state's employment cost for the average state employee earning \$ 37,500 per year is \$ 52,219 including fringe benefits. This is the amount that the state could ultimately save if it eliminated the employee and his position. But the immediate savings are less than the full amount because some fringe benefit costs continue and because the state must make certain payments to the state employee by virtue of his termination.

FRINGE BENEFITS

Of the 39.25% of the employment costs attributable to fringe benefits, 17.5% is for pensions and 12.97% for health insurance. The 17.5% for pensions is the per employee amount that the state must contribute to the State Employees Retirement Fund to keep it actuarially sound. Thus, it is not "saved" when the employee is laid off. In addition, there is a one-year lag in saving the 12.97% health insurance premium costs because the state pays its premium once a year based on a head count of employees at the time of payment. If it lays employees off during the year, those savings are not reflected until the next health premium payment.

TERMINATION EXPENSES

The state also has various expenses for laying off state employees. These include layoff notice requirements ranging from two weeks to 15 months, depending on the employee; payments for accrued vacation and compensatory time off; and unemployment compensation benefits. In addition, state employees paychecks are two weeks behind, so all state employees receive two weeks pay after they leave. This is the so-called two-week hold back. Most of these expenses vary according to the individual employee's pay rate and the amount of earned leave time he has accrued.

The state's payments for unemployment compensation benefits are paid out of the state's operating budget because the state is a reimbursing employer. Instead of paying unemployment compensation taxes on its annual payroll as most employers do, the state reimburses the

Unemployment Compensation Fund dollar for dollar for unemployment compensation benefits paid to state employees. The total cost of unemployment compensation benefits to any particular employee depends on the employee's pay, the number of his dependents, and how long the employee collects benefits (i. e. how long it takes him to find a new job).

Layoff notice provisions are specified in the State Personnel Act for classified employees not covered by collective bargaining agreements. The statutory notice period varies according to the length of the employee's classified service. Employees covered by collective bargaining agreements also have varying layoff notice provisions. The maximum notice under those agreements is the 15 months notice required to lay off a tenured professor at UConn. But most state employees working outside of higher education have notice requirements in the range of two to eight weeks.

The following chart shows the termination expenses for a hypothetical state employee making the state average salary of \$ 37,500:

Layoff Notice (two to eight weeks) \$ 1,442 - \$ 5,769

Two-week salary holdback 1,442

Accrued vacation (15 days) 2,163

Unemployment compensation benefits

(assume two dependents and 17 weeks of benefits*) 6,035

Total Termination Expense \$ 11,082 - \$ 15,409

* The average number of weeks of unemployment collected in Connecticut between September 1, 1993 and August 31, 1994 was 17. 2.

JSL: lc