

**Overtime Abuses and Retirement
A Research Report**

Submitted to Legislative Commission on Pensions and Retirement

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OVERTIME ABUSES AND RETIREMENT

INTRODUCTION

781

This study is authorized by the Laws of Minnesota 1978, Chapter ~~32~~, section 12.1. The purpose is to isolate the effects of overtime and extraordinary payments on public retirement annuities. The analysis is to consist of a salary history examination of a random sample of state employees who retired between January 1, 1975 to December 31, 1977.

This report is divided into three sections. The first section will discuss the analysis of the salary histories. The second section will look at other factors which influence overtime payments, i.e., legislation and union contracts. Conclusions are found in the third section.

I. Salary History Analysis

A. The Sample

The sample is drawn from all persons who retired from January 1, 1975 to December 31, 1977 and received an annuity from the Minnesota State Retirement System (MSRS). Excluded from the population of consideration are the following groups:

1. Persons with less than 15 years of service with the state
2. Boards and Commissions
3. University of Minnesota and State Colleges
4. Managers during the first five years prior to retirement²
5. Persons receiving disability annuities, combined services, coverage under more than one fund, beneficiaries, and persons covered by the highway patrol retirement plan

The population is also restricted to the largest fifteen departments as of January, 1978 (based on number of classified employees).

The sample selection method used is the stratified random method technique. The sample is stratified by department so that the departmental composition of the sample is representative of the composition of the population (Table 1). The final analyses are based on a sample of 154 persons and has a degree of statistical confidence of between .05 and .10 ($.05 \leq P \leq .10$).

Table 1: Composition of Population and Sample

Department	% of Population	% of Sample
Public Welfare	41.1	43.1
Transportation	17.4	17.7
Economic Security	4.8	5.5
Corrections	10.4	8.8
Natural Resources	7.5	6.1
Public Safety	4.2	5.0
Administration	3.0	3.3
Revenue	2.9	2.8
Education	1.2	0.6
Health	1.5	1.7
Agriculture	4.0	3.3
Labor and Industry	1.1	1.1
Commerce	0.6	0.6
Veterans Home	0.3	0.6
(n)	(907)	

B. The Data

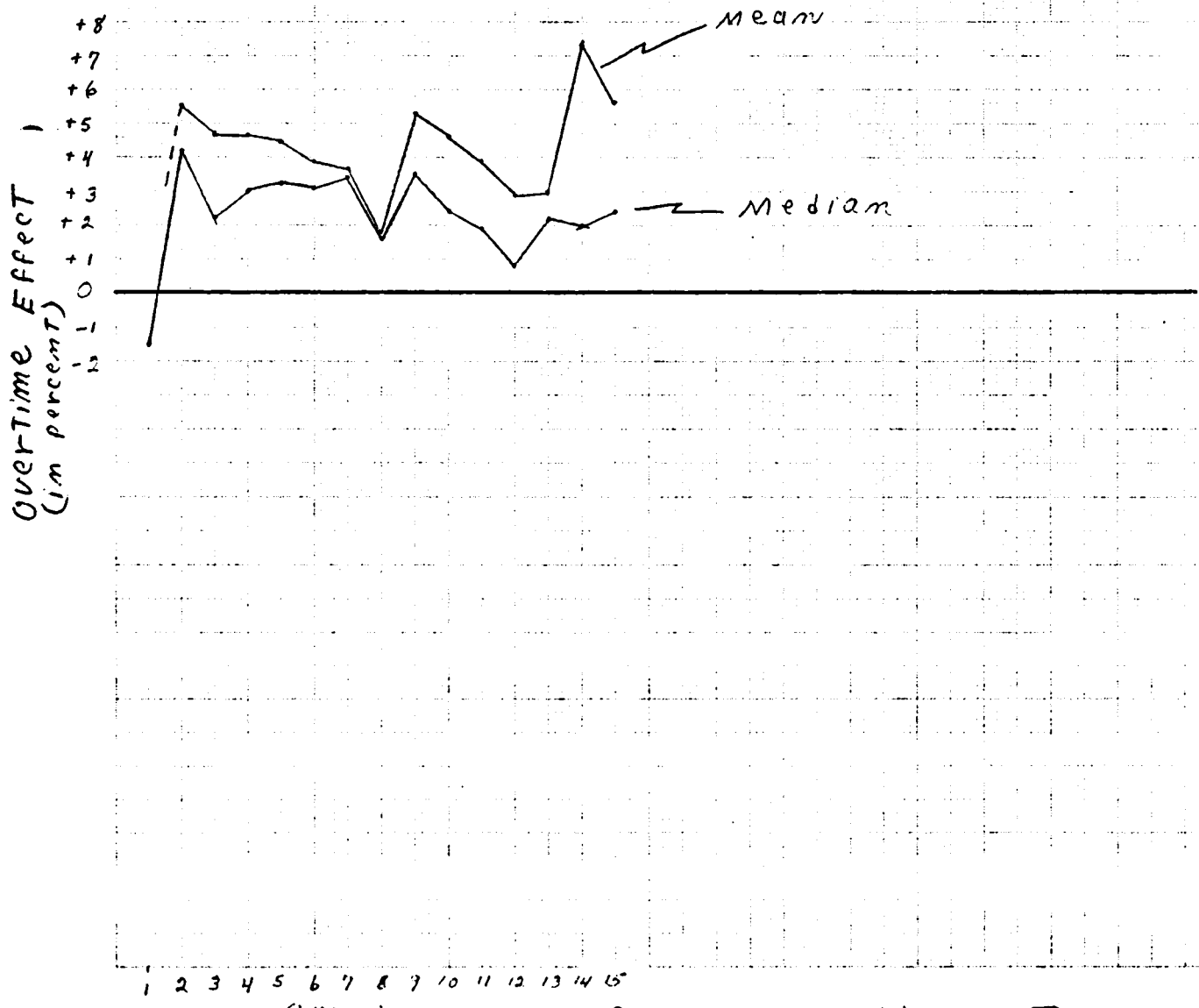
In the following analysis, the variable of concern is the percent of one's anticipated earnings that overtime dollars represent for a given service year. (This item will be referred to in this report as the overtime effect.) This is calculated as follows: $(\text{GROSS SALARY} - \text{ANTICIPATED SALARY}) \div \text{ANTICIPATED SALARY}$ where gross salary is the amount of money earned by the individual during the service year (inclusive of overtime and extraordinary payments) and anticipated salary is the expected earnings assuming no overtime or extraordinary benefits. For example, during the first year prior to retirement, an individual earns \$10,500 (gross salary). If this person had not received any overtime or extraordinary payments, a total of \$10,250 (anticipated salary) would have been earned. Therefore, the salary increased by 2.4% due to overtime and/or extraordinary payments.

Data on anticipated salaries were calculated from payroll cards and gross salary information obtained from MSRS. All analysis was done with the use of SPSS, a social science computer package.

C. Results

The overtime effect was calculated for each service year. (Note: Service year is in relationship to the retirement date. Service year one refers to the first year prior to retirement; service year two, the second year prior to retirement, etc.) Both the mean and the median for each service year are plotted on Graph 1 (following page). Table 2 contains other relevant statistics.

Graph 1: Mean and median overtime effect.



in Millimeters to the Centimeter Service years prior to retirement.

Table 2: Mean, Standard Deviation and Range for 15 Service Years

Service Year	Mean	Standard Deviation	Range
1	(-38.5)	-	(-100.00% to 124.0%)
2	5.5	12.1	-72.4% to 72.3%
3	4.7	10.4	-39.4% to 56.4%
4	4.7	8.4	-24.5% to 54.4%
5	4.5	6.7	-16.9% to 51.6%
6	3.9	8.6	-49.2% to 48.4%
7	3.7	11.2	-71.3% to 61.5%
8	1.8	31.6	-48.1% to 74.8%
9	5.3	15.2	-90.8% to 84.0%
10	4.6	9.5	-42.4% to 45.2%
11	3.9	9.1	-39.5% to 41.8%
12	2.9	8.2	-32.7% to 36.1%
13	3.0	10.4	-41.2% to 47.5%
14	7.3	27.8	-46.4% to 95.5%
15	5.6	17.3	-48.8% to 89.6%

Graph 1 shows that as one approaches retirement, there tends to be an increase in the overtime effect. The first year prior to retirement shows a sharp decline in the overtime effect. Although such an occurrence may exist, the magnitude of the change is suspect. A possible explanation for a decrease in the final year of rank is that people may want to use up accrued leave. Through 1977, it was possible for as much as 24 working days of annual leave to be accrued, and 100 days of sick leave. One could assume then that those individuals taking large amounts of leave may not have as much of an opportunity to work overtime. As indicated by Table 2, there is a wide range and variation in the overtime effect. It is also interesting to note that people do not always work full time.

D. Limitations

The amount of time required to collect the data was greater than was anticipated. The data was stored in paper files that were physically separated from each other and, in fact, were in different agencies. In an effort to hold down costs of the project, a number of clerical employees were used on a part-time basis as their regular workloads would allow. The net effect of this was that a number of people were involved in the data collection and each had to be trained in how to do the job properly. This in turn resulted in more errors in the data collection than would normally be expected because of the large number of people that were trained and the intermittent and sometimes infrequent manner in which they participated in the project. The data collection process also involved many manual tabulations. Verification of these tabulations were minimal due to time and costs involved.

II. Other Factors

Compensation for overtime and extraordinary payments have been regulated by such things as Personnel Rules, union contracts, and federal legislation. Consequently, changes in the amount of overtime and extraordinary payment dollars may also reflect changes in these regulations.

Both the personnel rules and the union contract are in close agreement on overtime standards. Generally, both define the overtime rates, how overtime is to be distributed, the liquidation of the overtime and who is covered by the specific overtime standards. A review was made of Personnel Rules regarding overtime from 1960 to 1977 (overtime standards were issued by the Department of Personnel during that period). In some years subject to approval, the departments could opt to draft their own overtime policies. General guidelines were still issued with most departments retaining the suggested format.

Changes in regulations over the 15 year period cover two major categories. First, the definition (salary breaking points) of employees covered by overtime regulations and second, the liquidation of overtime. The most significant change came in 1974 as a result of changes in the provisions of the Minnesota Fair Labor Standards Act and the Federal Fair Labor Standards Act. The basic provision required cash payment at the rate of time-and-one-half for hours worked in excess of 40 per week for all non-exempt employees unless compensatory time off was taken during the following payroll period. Possible consequences of such a provision include an increase in dollars spent on overtime compensation. This is especially true in departments that relied heavily on compensatory accrual as opposed to cash payment.

Variations in overtime and extraordinary payments may reflect more than just a change in legislation. There are factors extraneous to the job that could significantly influence the distribution of overtime hours and/or extraordinary payments. Some individuals may not desire to work overtime, be on-call or on come-back hours. With others, family obligations may make overtime more desirable. Also, factors like nearness of one's home to the working place or the availability of transportation may also be important.

III. Conclusions

Sample data shows that as one approaches retirement, there is an increase in the overtime effect. The first year prior to retirement shows a sharp decline of the overtime effect. One suggested reason is that during the last year of work, an individual may try to liquidate accrued leave and therefore is not available for as much overtime.

Because the overtime effect appeared to follow a cycle, another approach was used to examine overtime trends. The second approach used a completely different data source (current payroll files of active employees) and was based on the entire population of current state employees. A graph of that analysis is included in the appendix.

The second method of analysis produces a relationship of overtime worked to age that is similar to the relationship found in this study. We cannot propose the reasons, but it appears that employees tend to work more overtime during their last 5 years preceeding retirement, and during the period from 15 to 10 years preceeding retirement.

Other factors which may account for the overtime trend are changes in legislation. Especially noted are amendments adopted in accordance with the Federal and Minnesota Fair Labor Standards Act. Extraneous factors such as willingness to work overtime, nonwork commitments, and location of one's residence may also influence the overtime effect.

Foot Notes:

- 1** A copy of the legislation is found in the appendix.
- 2** Managers are excluded from overtime compensation.

Minnesota Statutes, Section 356.32, Subdivision 1,

notwithstanding the fact that the person did not retire at age 65. The annuity shall be payable on the first day of the month next following the completion of the purchase of prior service, and the first check or warrant shall include payment retroactive January 1, 1977.

Sec. 12. [STUDY OF OVERTIME ABUSES AND RETIREMENT.]

The commissioner of personnel shall complete a study and shall make an interim report to the legislative commission on pensions and retirement on or before November 15, 1978 on the subject of overtime compensation and extraordinary payment abuses affecting public retirement annuities. The study and report shall consist of an examination of the salary histories of a random sampling of persons from the various departments, divisions and agencies of state government who have retired in the period January 1, 1975 to December 31, 1977, contrasting variations in the compensation paid during the final five years of service with the compensation paid during the preceding ten years of employment. The examination shall attempt to isolate the effect of any overtime compensation and other extraordinary payments. The persons utilized in the random sample shall not be identified in the report or any materials for public release. The Minnesota state retirement system shall furnish information requested by the commissioner of personnel in connection with this study.

Sec. 13. Minnesota Statutes 1976, Section 356.34, as amended by Laws 1977, Chapter 429, Section 49, is repealed.

Average number of overtime hours paid, by year of birth.
Payroll period ending 11-11-78

