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Executive Summary:

Benefit Cost Comparisons Between State and Local Governments and Private-Sector Employers

- ***Nature and work forces of public vs. private sector have major differences***—Major reasons for the differences in total compensation costs between state and local government employers and private-sector employers are the different composition of their respective work forces and the different nature of public- vs. private-sector work. State and local government jobs include education and public safety functions (teachers, police, and firefighters), which involve high levels of education, training, physical fitness, or risk) and largely do not exist in the private sector. Unionization rates also are higher in the public sector than in the private sector.
- ***Compensation costs higher for state and local government due to work force characteristics***—Overall total compensation costs as of September of 2007 were 51.4 percent higher among state and local government employers (\$39.50 per hour worked) than among private-sector employers (\$26.09 per hour worked).
- ***Health and retirement costs higher in the public sector to support better benefits***—State and local governments have sharply higher costs for health and retirement benefits than private-sector employers, since their workers participate in these benefits at far higher rates and public-sector workers are far more likely to have defined benefit (pension) retirement benefits than are private-sector workers.

The Number of Individual Account Retirement Plans Owned by American Families

- ***Just over one-half of Americans do not have an individual account retirement plan***—Half of families in the United States (50.9 percent) do not own an individual account retirement plan at all, but of those that do own at least one plan, most own *only* one. The minority of families that own *more* than one individual account plan tend to have a disproportionate amount of assets in these plans.
- ***Where the money is***—Families that own more than one account tend to have family heads between the ages of 35–64, and family income of \$50,000 or more. An accurate estimate of total retirement assets requires analysis of families' current-job defined contribution plans, former-job defined contribution plans, *and* their individual account retirement plans.

■ ***Benefit Cost Comparisons Between State and Local Governments and Private-Sector Employers***

By Ken McDonnell, EBRI

This article examines some of the causes of the differences in total compensation costs between state and local government employers and private-sector employers. As of September of 2007, overall total compensation costs were 51.4 percent higher among state and local government employers (\$39.50 per hour worked) than among private-sector employers (\$26.09 per hour worked) (calculated from Figure 1).

Total compensation costs consist of two major categories: wages and salaries and employee benefits. For both of these categories, state and local government employers' costs were higher than those of private-sector employers: 42.6 percent higher for wages and salaries and 72.8 percent higher for employee benefits (calculated from Figure 1).

Work Force Comparisons

Major reasons for the differences in total compensation costs between state and local government employers and private-sector employers are the different composition of their respective work forces and the different nature of public- vs. private-sector work. This section looks at two components of the work force: industry groups and occupation groups. Note that the term *service* is not the same in the industry groupings and occupation groupings: For instance, the public sector classifies public safety jobs (such as police and firefighters, which involve high levels of training, physical fitness, and risk) as being in the service sector, while these functions largely do not exist in the private sector. Data for these two sectors are not identical because not all service workers are employed in the service industries.

Industry Groups—State and local government workers are highly concentrated in the education sector. This sector includes teachers and university professors, two categories of employees with high unionization rates and high compensation costs. In September 2007, 52.7 percent of all state and local government employees were employed in this sector (Figure 2) and total compensation costs for the education sector were \$42.48 per hour worked. By contrast, the private-sector industry group with the largest number of workers was services. In September 2007, services accounted for 47.9 percent of all private-sector workers, and total compensation costs for this group were \$24.91 per hour worked.

Another factor affecting total compensation costs is union membership. Union presence in an industry is positively correlated with higher total compensation costs. In 2007, 7.4 percent of private-sector workers were members of a union, compared with 36.2 percent of workers in state and local governments (Figure 2). Among private-sector employers, in September 2007, total compensation costs were \$35.92 per hour worked for unionized workers, compared with \$24.94 for nonunionized workers.

Occupation Groups—As with the industry groupings, the concentration of occupations among state and local government employers was quite different from that of private-sector employers. A large percentage of state and local government employees were concentrated in teaching (27.0 percent) and in service occupations (31.8 percent) (Figure 3). Teachers had the highest total compensation costs among state and local government employers, \$53.39 per hour worked in September 2007. By comparison, the largest percentage of private-sector workers was among sales and office occupations (27.3 percent) and service occupations (25.7 percent). Compensation costs for these occupations were low, for sales and office (\$20.86) and service (\$13.00).

The largest gap in compensation costs between state and local government and private-sector workers was among service occupations. In September 2007, the total compensation costs for these workers in state and local governments was \$30.74 per hour, compared with \$13.00 per hour in the private sector. This difference is a function of the type of occupations in the services category: Among state and local governments, the BLS categorizes police and firefighters among the service occupations. Among private-

Figure 1
**Employer Costs for Employee Compensation and Percentage of All Employees Participating^a
 in Employee Benefit Programs: State and Local Governments and Private Sector**

Employee Benefit Program ^b	State and Local Governments			Private Sector		
	Total Compensation Costs	Percentage of Total Compensation Costs	Participation (Sept. 2007)	Total Compensation Costs	Percentage of Total Compensation Costs	Participation (March 2007)
	(\$ per hour worked)	(September 2007)	(Sept. 2007)	(\$ per hour worked)	(September 2007)	(March 2007)
Total Compensation Costs	\$39.50	100.0%	c	\$26.09	100.0%	c
Wages and salaries	26.26	66.5	c	18.42	70.6	c
Total benefits	13.24	33.5	c	7.66	29.4	c
Paid leave	3.07	7.8	c	1.76	6.8	c
Vacations	1.08	2.7	61%	0.90	3.5	77%
Holidays	0.99	2.5	69	0.58	2.2	77
Sick	0.76	1.9	87	0.22	0.8	57
Other	0.24	0.6	c	0.06	0.2	c
Supplemental Pay	0.35	0.9	c	0.78	3.0	c
Overtime and Premium ^d	0.18	0.4	c	0.27	1.0	c
Shift differentials	0.07	0.2	c	0.07	0.3	c
Nonproduction bonuses	0.10	0.3	30	0.44	1.7	47
Insurance	4.50	11.4	c	1.99	7.6	c
Life	0.07	0.2	78	0.04	0.2	56
Health	4.35	11.0	72	1.85	7.1	52
Short-term disability	0.03	0.1	23	0.05	0.2	38
Long-term disability	0.04	0.1	34	0.04	0.1	30
Retirement and savings	3.04	7.7	86	0.92	3.5	51
Defined benefit	2.73	6.9	79	0.43	1.7	20
Defined contribution	0.31	0.8	18	0.49	1.9	43
Legally required benefits	2.29	5.8	c	2.21	8.5	c
Social Security and Medicare	1.75	4.4	c	1.55	5.9	c
OASDI ^e	1.34	3.4	c	1.24	4.8	c
Medicare	0.41	1.0	c	0.31	1.2	c
Federal unemployment insurance	f	g	c	0.03	0.1	c
State unemployment insurance	0.05	0.1	c	0.16	0.6	c
Workers' compensation	0.49	1.2	c	0.48	1.8	c

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation—September 2007* (USDL-07-1883) (Washington, DC: U.S. Department of Labor, 2007), http://www.bls.gov/ncs/lecr/NationalCompensationSurvey_EmployeeBenefitsinStateandLocalGovernmentsintheUnitedStates_September2007 (Washington, DC: U.S. Government Printing Office, 2008), and *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007* (Washington, DC: U.S. Department of Labor, 2007), <http://www.bls.gov/ncs/lebs/>

Note: Because of rounding, sums of individual items may not equal totals.

^a Includes workers covered but not yet participating due to minimum service requirements. Does not include workers offered but not electing contributory benefits.

^b Includes only benefit programs that are partially or wholly paid by the employer.

^c Data not available.

^d Includes premium pay for work in addition to the regular work schedule (such as overtime, weekends, and holidays).

^e Old-Age, Survivors, and Disability Insurance.

^f Cost per hour worked is \$0.01 or less.

^g Less than 0.05 percent.

