

CHAPTER 42

BENEFIT COST COMPARISONS BETWEEN STATE AND LOCAL GOVERNMENTS AND PRIVATE-SECTOR EMPLOYERS

Introduction

The proposal in 2005 by California Gov. Arnold Schwarzenegger (R) to end that state's public employee defined benefit pension plan focused attention on the disparate compensation costs between public-sector workers and private-sector workers. This chapter examines some of the causes of the differences in total compensation costs between state and local government employers and private-sector employers, using various datasets.¹

Total Compensation Costs

In 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 42.1).

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 42.1).

Work Force Comparisons

One of the primary reasons for differences in total compensation costs between state and local government employers and private-sector employers is the composition of their respective work forces. This section looks at two components of the work force: industry groups and occupation groups. (Readers should note that the term "service" is not the same in the industry

¹ The datasets used are as follows: For compensation costs, the Bureau of Labor Statistics (BLS), *Employer Costs for Employee Compensation*; for private-sector benefit participation, the BLS, *National Compensation Survey, Employee Benefits in Private Industry in the United States, March 2006*; and for state and local government employers, BLS, *Employee Benefits in State and Local Governments, 1998*. Employment by industry group data are from BLS, *Employment and Earnings, October 2006*; and employment by occupation data are from Employee Benefit Research Institute tabulations of the March 2006 Current Population Survey by the U.S. Census Bureau.

Figure 42.1

EMPLOYER COSTS FOR EMPLOYEE COMPENSATION AND PERCENTAGE OF FULL-TIME 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 (\$ per hour worked)	Percentage of total compensation costs	Participation (Sept. 2007)	Total compensation costs (\$ per hour worked)	Percentage of total compensation costs	Participation (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

continued on next page

Figure 42.1, continued from previous page

Employee Benefit Program ^b	State and Local Governments			Private Sector		
	Total compensation costs (Sept. 2007) (\$ per hour worked)	Percentage of total compensation costs	Participation (Sept. 2007)	Total compensation costs (Sept. 2007) (\$ per hour worked)	Percentage of total compensation costs	Participation (March 2007)
Retirement and savings defined benefit	3.04	7.7	86	0.92	3.5	51
defined contribution	2.73	6.9	79	0.43	1.7	20
Legally required benefits	0.31	0.8	18	0.49	1.9	43
Social Security and Medicare	2.29	5.8	c	2.21	8.5	c
OASDI ^e	1.75	4.4	c	1.55	5.9	c
Medicare	1.34	3.4	c	1.24	4.8	c
federal unemployment insurance	0.41	1.0	c	0.31	1.2	c
state unemployment insurance	f	9	c	0.03	0.1	c
workers' compensation	0.05	0.1	c	0.16	0.6	c
	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* (Washington, DC: U.S. Department of Labor, 2007) www.bls.gov/nsc/ect; *National Compensation Survey, Employee Benefits in State and Local Governments in the United States, September 2007* (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) www.bls.gov/nsc/ebbs/

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 Stands for Old-Age, Survivors, and Disability Insurance.

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

^g Less than 0.05 percent.

groupings and occupation groupings: Data for these two 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 relatively high levels of education, unionization rates, and compensation costs. In September 2007, 52.7 percent of all state and local government employees were employed in this sector and total compensation costs for this sector were \$42.48 per hour worked (Figure 42.2).

By contrast, private-sector industry groups with the largest number of workers were services and trade, transportation, and utilities. In September 2007, services accounted for 47.9 percent of all private-sector workers, and trade, transportation, and utilities accounted for 22.7 percent. Total compensation costs for these two industry groups were \$22.41 per hour for trade, transportation, and utilities industries and \$24.91 per hour for services.

Another factor affecting total compensation costs is union membership. Union presence in an industry is positively correlated with total compensation costs. In 2006, 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 42.2).

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 teachers (27.0 percent) and in service occupations (31.8 percent) (Figure 42.3). 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 percentages of private-sector workers were among sales and office occupations (27.3 percent) and service occupations (25.7 percent). Compensation costs for these occupations were relatively low: \$20.86 for sales and office occupations and \$13.00 service occupations.

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, positions that involve a high degree of physical risk and generally require above-average skills and physical ability. Among private-sector employers, occupations such as waiters/waitresses and cleaning and building services functions are categorized as service occupations, and these jobs traditionally have low wages.

Figure 42.2

EMPLOYMENT AND TOTAL COMPENSATION COSTS, BY INDUSTRY GROUP AND UNION MEMBERSHIP, STATE AND LOCAL GOVERNMENTS AND PRIVATE SECTOR

	<u>State and Local Governments</u>		<u>Private Sector</u>	
	<i>Employment</i>	<i>Total compensation costs^a</i>	<i>Employment</i>	<i>Total compensation costs^a</i>
	<i>(Sept. 2007)</i>	<i>(Sept. 2007)</i>	<i>(Sept. 2007)</i>	<i>(Sept. 2007)</i>
Total	19,391,200	\$ 39.50	Total	116,348,000 \$ 26.09
Education	52.7%	42.28	Construction	6.7% 29.39
Hospitals	5.4	33.62	Manufacturing	12.1 30.82
General administration	31.1	36.53	Trade, transportation, & utilities	22.7 22.41
Local government utilities	1.2	b	Information	2.6 39.11
Local government transportation	1.3	b	Financial activities	7.2 34.95
Other	8.2	b	Services	47.9 24.91
			Professional & business services	15.6 30.44
			Education & health services	15.8 27.55
			Leisure & hospitality services	11.9 11.59
			Other services	4.7 21.87
Members of a Union ^c	36.2	45.00	Members of a Union ^c	7.4 35.92
Non-union workers ^c	63.8	34.50	Non-union workers ^c	92.6 24.94

Source: EBRI tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings December 2007* (Washington, DC: U.S. Department of Labor, 2008). www.bls.gov/ces/home.htm
Employer Costs for Employee Compensation-September 2007 USDL: 07-1883 (Washington, DC: U.S. Department of Labor, 2007) www.bls.gov/ncs/lect/, and U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 2008* (Washington, DC: U.S. Government Printing Office, 2008) www.census.gov/statab/www/

^a Data are expressed as dollars per hour worked.

^b Data not available.

^c Data are for 2006.

Employee Benefits

As noted above, benefit costs of state and local government employers were 72.8 percent higher than those of private-sector employers in September 2007. Many factors contribute to this gap.

Benefit Costs—The two most important voluntary benefit programs an employer provides are health insurance and a retirement savings plan. There is great cost disparity in these benefits between state and local government employers and private-sector employers. In September 2007, the average cost per employee per hour worked for health insurance benefits for state and local government employers (\$4.35) was 135 percent higher

than for private-sector employers (\$1.85) (calculated from Figure 42.1). The disparity was even larger for retirement and savings plans: These cost state and local government employers \$3.04 per hour worked in September 2007, 230 percent higher than the \$0.92 cost for private-sector employers.

Participation—One of the primary reasons for the difference in benefit costs is that state and local government employees are more likely than their private-sector counterparts to participate in employee benefit programs. Health insurance participation rates among all employees in state and local governments (72 percent in September 2007) were significantly higher than rates among all employees in the private sector (52 percent in March 2007) (Figure 42.1). The disparity was even larger for retirement and savings plans. In September 2007, 86 percent of all employees in state and local governments participated in some type of retirement and savings plan, compared with 51 percent of all employees in the private sector in March 2007.

Factors Behind the Differences—As the data illustrate, there are many factors that drive the disparity in benefit cost between the private and public sectors:

- **Job Characteristics:** Public-sector jobs are more service-oriented and a different nature (primarily education) than private-sector jobs (primarily trade). In many cases, such as teaching and public safety, these are jobs that require special skills or training, have higher pay grades, and offer different benefit structures that are specifically designed to attract and retain workers who have those specialized skills (for instance, many police and fire positions offer faster pension accrual or early retirement due to the demanding physical requirements and risks related to the work).
- These differences also make it difficult to compare benefit plan designs between the sectors: For instance, in state and local governments, workers are generally required to contribute to their own defined benefit pension, but in the private sector, employers typically pay all defined benefit pension contributions. Conversely, almost half (45 percent) of state and local workers received automatic cost of living adjustments for their defined benefit plan payments, compared with about 8 percent of private-sector workers, according to the Bureau of Labor Statistics.
- **Pension participation:** About 79 percent of all state and local government workers participated in a defined benefit pension plan as of September 2007, compared with about 20 percent of private-sector workers (Figure 42.1) (participation in a public-sector defined benefit plan usually is mandatory for permanent full-time employees).
- **Pension costs:** Defined benefit pension plans typically are more expensive for private plan sponsors to operate than defined contribution plans (such as 401(k)s). The growing administrative cost of operating a defined

Figure 42.3

EMPLOYMENT AND TOTAL COMPENSATION COSTS IN STATE AND LOCAL GOVERNMENTS AND PRIVATE SECTOR, BY OCCUPATION GROUP, AGE 16 AND OLDER

	<i>State and Local Governments</i>		<i>Private Sector</i>	
	Employment	Total compensation costs ^a	Employment	Total compensation costs ^a
	(2006)	(Sept. 2007)	(2006)	(June 2006)
Total	18,476,664	\$ 39.50	118,348,553	\$ 26.09
Management, professional and related	13.4%	48.35	18.0%	46.22
Professional and related	7.2	47.95	9.3	43.21
Teachers ^a	27.0	53.39	2.2	39.28
Sales and office	14.1	27.00	27.3	20.86
Service	31.8	30.74	25.7	13.00
Natural resources, construction, and maintenance	5.3	34.34	18.8	29.57
Production, transportation, and material moving	3.1	30.86	6.9	22.64

Source: EBRI tabulations of data from the Current Population Survey March 2007 Supplement; 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) www.bls.gov/ncs/lect/

^a Includes postsecondary teachers; primary, secondary, and special education teachers; and other teachers and instructors.

benefit plan is cited by many private-sector plan sponsors as a major disincentive to operating this type of retirement plan (see *EBRI Issue Brief* no. 232, April 2001, p. 5). ERISA, the federal law governing most private-sector benefits, generally does not apply to public-sector pension plans, and the cost of administering a public-sector defined benefit plan is decidedly less than a defined contribution plan.

- **Unionization:** State and local government workers have significantly higher unionization rates than do private-sector workers. In 2006, 36.2 percent of state and local government employees were members of a union compared with 7.4 percent among private sector employees (Figure 42.2). Workers who are union members tend to have both higher pay and more generous benefits.

Bibliography

- McDonnell, Ken. "Benefit Cost Comparisons Between State and Local Governments and Private-Sector Employers." *EBRI Notes*, no. 6 (Employee Benefit Research Institute: June 2008).
- U.S. Department of Commerce, Bureau of the Census. *Statistical Abstract of the United States, 2008* (Washington, DC: U.S. Government Printing Office, 2008) www.census.gov/statab/www/
- U.S. Department of Labor. *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007* (Washington, DC: U.S. Department of Labor, 2007) www.bls.gov/ncs/ebs/
- National Compensation Survey, Employee Benefits in State and Local Governments in the United States, September 2007* (Washington, DC: U.S. Government Printing Office, 2008);
- Bureau of Labor Statistics. *Employer Costs for Employee Compensation—September 2007*; UDL: 07-1883 (Washington, DC: U.S. Department of Labor, 2004): www.bls.gov/ncs/ect/
- Wiatrowski, William. "Comparing Employee Benefits in the Private and Public Sector." *Monthly Labor Review* (December 1988): 3–8.

Additional Information

U.S. Department of Commerce
Bureau of the Census
Washington, DC 20233
(800) 242-4523
www.census.gov

U.S. Department of Labor
Bureau of Labor Statistics
Postal Square Building
2 Massachusetts Avenue, NE
Washington, DC 20212
(202) 691-5200
www.bls.gov

National Association of State Retirement Administrators
304 River Ridge Drive
Georgetown, TX 78628
(512) 868-2774
www.nasra.org