



## Pay Mix and Insurance Changes

The Patient Protection and Affordable Care Act of 2010 (PPACA) and the issues it highlights have many employers thinking hard about important parts of their pay mix.

Use of health care as a form of compensation by U.S. firms expanded widely during World War II. Governmentmandated wage and salary controls prompted employers to find another way to pay more in their efforts to recruit scarce wartime talent. With regard to employer-provided health care, the United States is in another historically significant tide-turning time. What health-care markets will look like in the coming years is an interesting subject that will likely

have important ramifications for how people around the world are paid, especially those in the United States.

## **Employer Costs for Compensation**

Limited public data make it difficult for social scientists wanting to study compensation packages beyond wages and salaries. Fortunately, there is one excellent source of data produced by the U.S. Department of Labor on costs of compensation to employers.

The Employer Costs for Employee Compensation (ECEC) survey polls business establishments about their jobs and what each of those jobs is costing the employer. The ECEC survey has extraordinary detail on the mix of pay for certain jobs. And if one has the time or inclination, he/she can apply for special access to the data, travel to Washington, D.C., and see the pay mix within extremely narrowly focused occupations. In this column, however, I only report on publicly available data.

In Q2 2013, the ECEC data from the U.S. Bureau of Labor Statistics (BLS) indicate that though the average U.S. (civilian) worker earns \$21.54 in wage and salary income, the average total cost to the employer, per hour, is \$31.16 (\$21.54 for wage and salary





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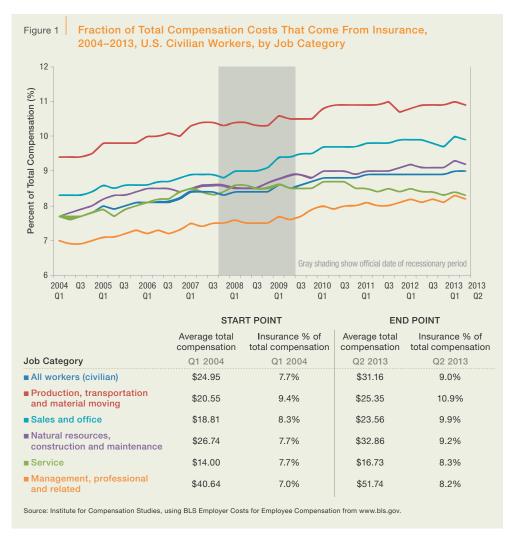
Board Member. WorldatWork Society of Certified Professionals income + \$9.61 for benefit costs to employers). So, 69.1 percent of total compensation costs come in the form of wages and salaries and more than 30 percent are in other forms of costs. Of that 30 percent of other costs, a big share (9 percent) is in the form of insurance, and most of this insurance cost is health insurance (8.5 percent). Other components of the nonwage/ nonsalary costs include paid leave (7 percent), supplemental pay (2.4 percent), retirement and savings (4.8 percent) and legally required benefits like workers' compensation, unemployment insurance and Social Security (7.8 percent).

## Pay Mix Changes by Job and Over Time

It is interesting to think about how this average pay mix has changed over time. It turns out, a lot.

Figure 1 shows the fraction of total compensation costs that come in the form of insurance for each of six very broad occupation categories going back almost 10 years. "Production, transportation and materials" has the highest fraction of compensation costs in the form of insurance, up to 10.9 percent

in 2013. At the other end of the spectrum, "management, professionals and related" has the lowest fraction of compensation costs related to insurance (8.2 percent) with "service" a very close second (8.3 percent), but presumably for two very different reasons. The facts that the cost to insure a lower wage worker is roughly the same as for a higher-wage worker, and managerial workers are relatively highly paid, means the share of managers' compensation paid in insurance will likely be arithmetically lower than the average. For service workers, however, the low share of compensation in the form of insurance is more reflective of the lower likelihood of receiving employer-provided insurance. Only 42 percent of service workers had access to employer-provided health care (prior to the PPACA being implemented). Eighty-seven percent of managerial workers did, according to BLS.



## What's Next?

As employers struggle with how best to allocate their compensation dollars in a shifting regulatory framework, the ECEC will provide an important record of decision making on the size of the compensation pie and its various slices. I expect this piece of pay mix will be front and center for some time to come. ws

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