Measuring Compensation: Comments

Richard Berner, Chief US Economist
Morgan Stanley
BEA Advisory Committee Meeting
November 3, 2006
Key Issues

- Needed: Reliable measures of wages and benefits
- Rapidly evolving workplace and compensation
- No standard for the plethora of wage measures
- Conceptual and measurement issues for benefits
- Hours at work = hours worked?
- Reliability in real time: Final source vs. initial estimation methods
Rapidly evolving workplace and compensation

ECI for benefits, civilian workers, year-over-year percent change

ECI for wages & salaries, civilian workers, year-over-year percent change

Source: Bureau of Labor Statistics

Morgan Stanley
No standard for the plethora of wage measures

Sources: Bureau of Labor Statistics, Morgan Stanley Research

* Adjusted for estimated revisions to hours worked
No standard for the plethora of wage measures (cont.)

<table>
<thead>
<tr>
<th>Sample Size</th>
<th>National Compensation Survey, Employment Cost Index (ECI)</th>
<th>QCEW</th>
<th>OES</th>
<th>CES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11,000 private industry establishments (nonfarm), 800 state &amp; local government establishments</td>
<td>Workers covered by State unemployment insurance (UI) laws and Federal workers covered by the Unemployment Compensation for Federal Employees (UCFE) program. Includes partial information on agricultural industries and employees in private households.</td>
<td>Data on wage &amp; salary workers in nonfarm establishments (200,000). Excludes fishing and forestry industries and private household workers. Includes the US Postal Service and federal executive branch employment.</td>
<td>Based on 400,000 nonfarm business establishments. Production workers in the goods-producing sector and nonsupervisory workers in the service-providing sector.</td>
</tr>
</tbody>
</table>

Sources: Bureau of Labor Statistics, Morgan Stanley Research

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No standard for the plethora of wage measures (cont.)

<table>
<thead>
<tr>
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<tr>
<td>Wages &amp; Salaries</td>
<td>Straight-time wage and salary rates are total earnings before payroll deductions, excluding premium pay for overtime and for work on weekends and holidays, shift differentials, and nonproduction bonuses such as lump-sum payments provided in lieu of wage increases. Production bonuses, incentive earnings, commission payments, and cost-of-living adjustments are included in straight-time wage and salary rates.</td>
<td>Wage measure includes pay for vacation and other paid leave time and overtime, bonuses, retroactive pay, tips, and the cash value of meals, lodging, and other payments in kind. Also includes stock options and in some States, employer contributions to DC plans, such as 401(k) plans.</td>
<td>Wages are straight-time, gross pay, exclusive of premium pay. Includes cost-of-living allowances, guaranteed pay, hazardous-duty pay, incentive pay including commissions and production bonuses, on-call pay, and tips. Excludes back pay, jury duty pay, overtime pay, severance pay, shift differentials, nonproduction bonuses, and tuition reimbursements.</td>
<td>Gross payrolls before deductions. Includes pay for overtime, vacations, holidays and sick leave paid directly by the firm. Bonuses, commissions, and other types of non-wage cash payments are excluded unless they are earned and paid regularly (at least once a month). Employee benefits paid by the employer, as well as tips and payments in kind, are excluded.</td>
</tr>
</tbody>
</table>

Sources: Bureau of Labor Statistics, Morgan Stanley Research

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Conceptual and measurement issues for benefits

Sources: Bureau of Labor Statistics, Morgan Stanley Research

Real hourly supplements to wages & salaries*

Real ECI for benefits, civilian workers

* Adjusted for estimated revisions to hours

Sources: Bureau of Labor Statistics, Morgan Stanley Research

Morgan Stanley
Conceptual and measurement issues for benefits (cont.)

Sources: Bureau of Labor Statistics, Morgan Stanley Research

**Real supplements to wages & salaries**

*Adjusted for estimated revisions to hours*
### Conceptual and measurement issues for benefits (cont.)

<table>
<thead>
<tr>
<th>Benefits</th>
<th>National Compensation Survey, Employment Cost Index (ECI)</th>
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<tr>
<td>Include paid leave (vacations, holidays, sick leave, and other leave), supplemental pay (premium pay for work in addition to the regular work schedule such as overtime, weekends, and holidays), shift differentials, and nonproduction bonuses (such as referral bonuses and attendance bonuses), insurance benefits (life, health, short-term and long-term disability, retirement, and savings benefits (DB &amp; DC), and legally required benefits (Social Security, Medicare, and federal and state unemployment insurance))</td>
<td>Does not break out benefits</td>
<td>Does not break out benefits</td>
<td>Excluded</td>
<td></td>
</tr>
</tbody>
</table>

**Sources:** Bureau of Labor Statistics, Morgan Stanley Research
## Conceptual and measurement issues for benefits (cont.)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Employment Weights</strong></td>
<td>Fixed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Includes stock options?</strong></td>
<td>No</td>
<td>Yes</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td><strong>Includes self-employed?</strong></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Frequency?</strong></td>
<td>Quarterly</td>
<td>Quarterly</td>
<td></td>
<td>Monthly</td>
</tr>
<tr>
<td><strong>Collection period</strong></td>
<td>Pay period including 12th of month</td>
<td>Pay period including 12th of month</td>
<td>Pay period including 12th of month</td>
<td>Pay period including 12th of month</td>
</tr>
</tbody>
</table>

**Sources:** Bureau of Labor Statistics, Morgan Stanley Research
Reliability in real time: final source vs. initial estimates

- Substantial revisions and uncertainty about their origin reduces confidence in estimates
- Wages and salaries: Withheld and OASDHI receipts gave advance waning
- Retirement: Estimates of funding gaps, mutual fund flows, 10Ks for restricted stock
- Health care: Consultants’ surveys, estimates of “buydowns,” NCS data
- Hours: Reliability of ES-202? Cross checking with other sources?
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