

## **Out of Balance? Comparing Public and Private Sector Compensation over 20 Years**

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**April 2010**



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## About the Center for State & Local Government Excellence

The Center helps state and local governments become knowledgeable and competitive employers so they can attract and retain a talented and committed workforce.

The Center identifies best practices and conducts research on competitive employment practices, workforce development, pensions, retiree health security, and financial planning.

# Why We Did This Study

- Reporting often is misleading
- Seek to make “apples to apples” comparison between like employees in each sector
  - If an average public sector employee took a private sector job, would s/he receive more or less total compensation?

# Why We Did This Study

- Examine the extent to which state and local government compensation is comparable to that in the private sector.
- Level of compensation is important:
  - Too-high levels deprive governments of the opportunity to address other objectives.
  - Too-low levels make it difficult to attract quality employees to provide critical public services.



## **About the National Institute on Retirement Security**

NIRS is a nonprofit research institute established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy.

NIRS works to fulfill this mission through research, education, and outreach programs that are national in scope.

## What We Found: Wages

- State and local employees are twice as likely as their private sector counterparts to have a college or advanced degree.
- State employees earn 11 percent less, and local workers earn 12 percent less, than comparable private sector workers.
- Over the last 20 years, the earnings for state and local employees have generally declined relative to comparable private sector employees.

# What We Found: Total Compensation

- Benefits comprise a greater share of compensation in the public sector.
- Even after accounting for benefits, state and local employees have lower total compensation than their private sector counterparts.
- Compensation is 6.8 percent lower for state employees and 7.4 percent lower for local workers, compared with comparable private sector employees.



## Methodology: What We Did

- Use the “people” approach to account for the characteristics that help determine each worker’s earnings:
  - Education, training, experience
  - Job location, broad occupation, etc.
- In this way we can compare similar employees, and isolate the effect of being employed in the public or private sector.

# Results: Public and Private Sector Workforces Differ

- State and local sector employees are disproportionately:
  - Female
  - Married
  - Black
  - Unionized
  - Older
  - More educated

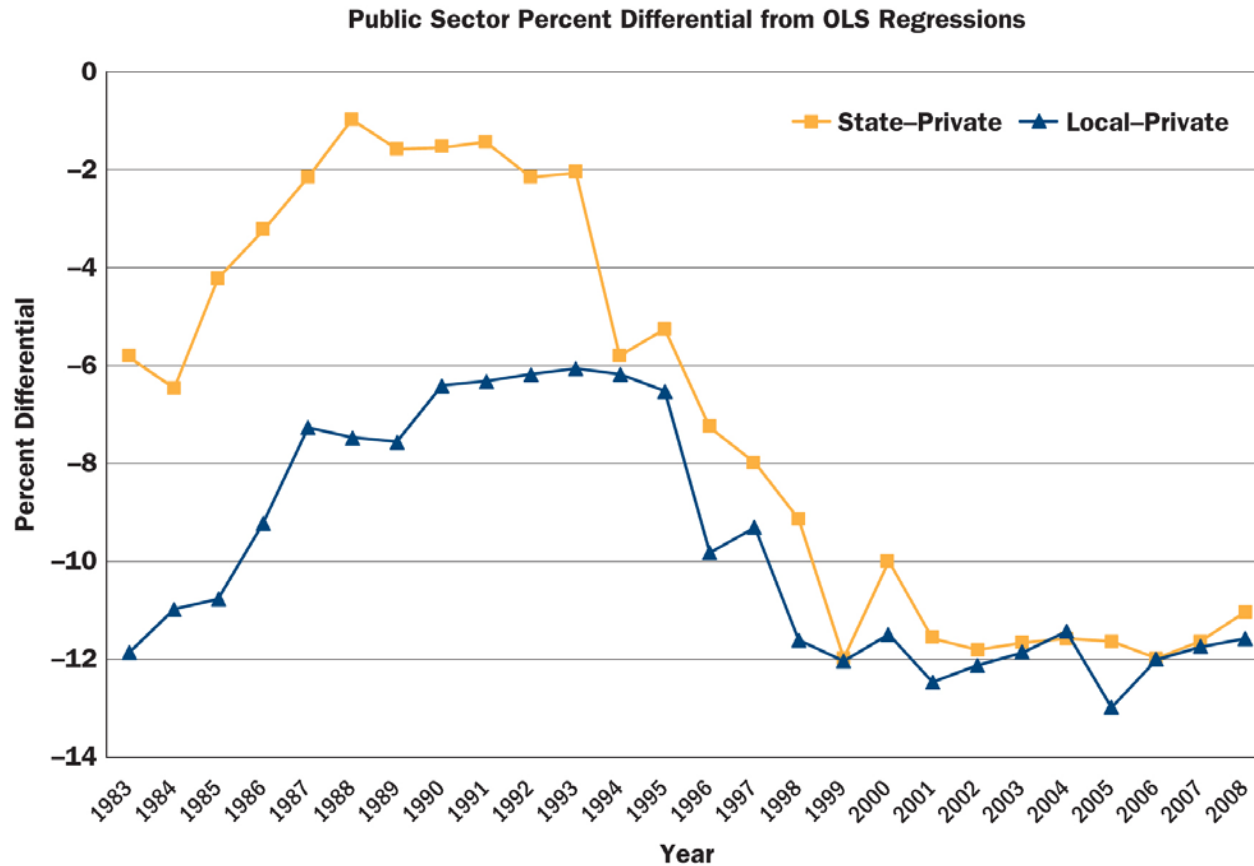
# Results: Public Sector Workforces Are Disproportionately More Educated

- Percent of workers who've finished college:
  - Private sector: 22.6%
  - State sector: 48.1%
  - Local sector: 47.9%
- Most common occupations in state/local sectors require a higher level of education:
  - Teachers
  - Social workers
  - Nurses
  - University professors

# Public Sector Employees Are Paid Less Than Private Sector Counterparts

- State and local workers are paid less than comparable private sector workers. In 2008:
  - State workers were paid **11% less** than their private sector counterparts.
  - Local workers were paid **12% less** than their private sector counterparts.
- The major driver in this basic pattern is that government workers have jobs that demand more education.

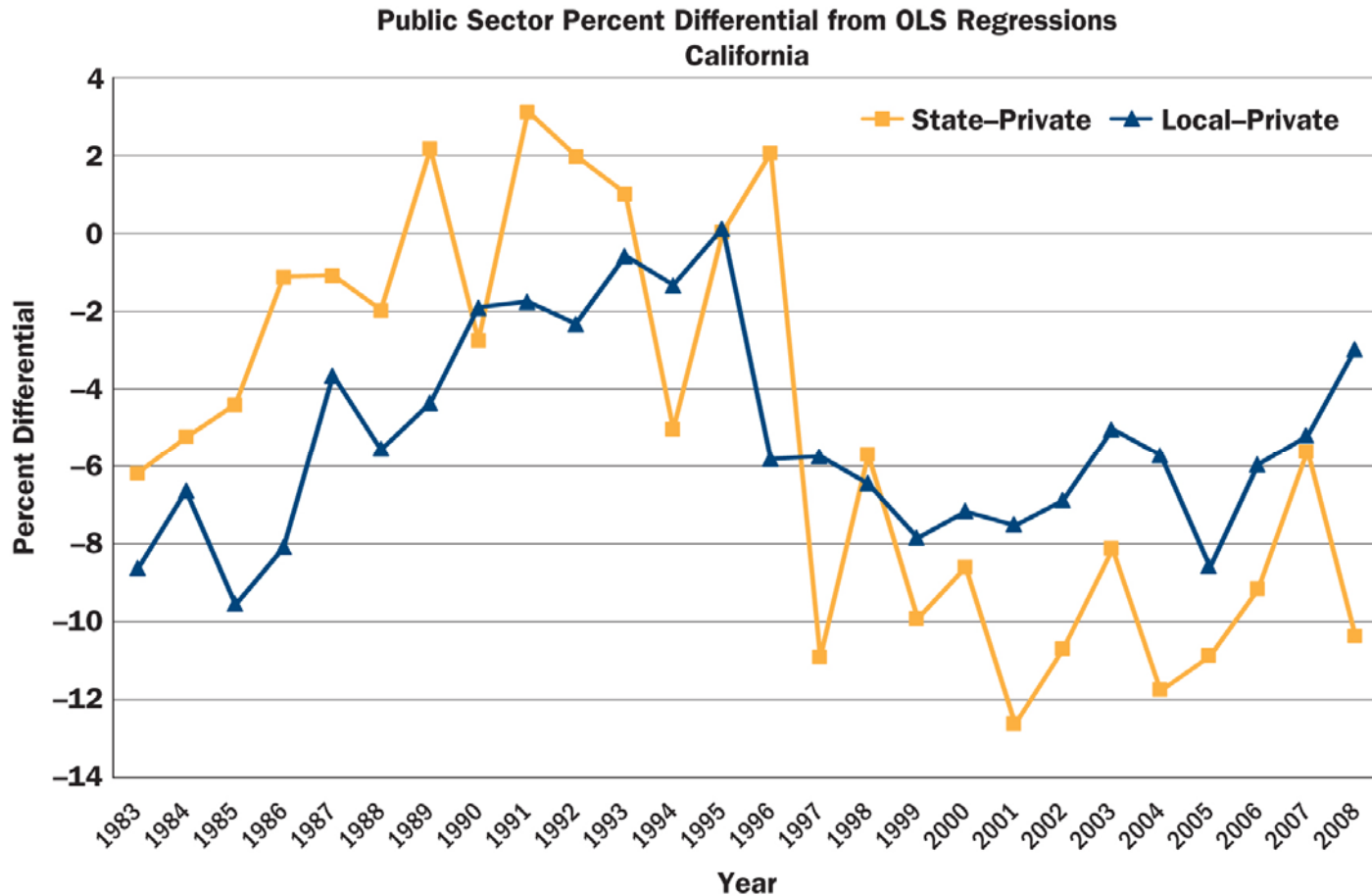
# Over Time, Pay Differential Has Moved Against Public Workers



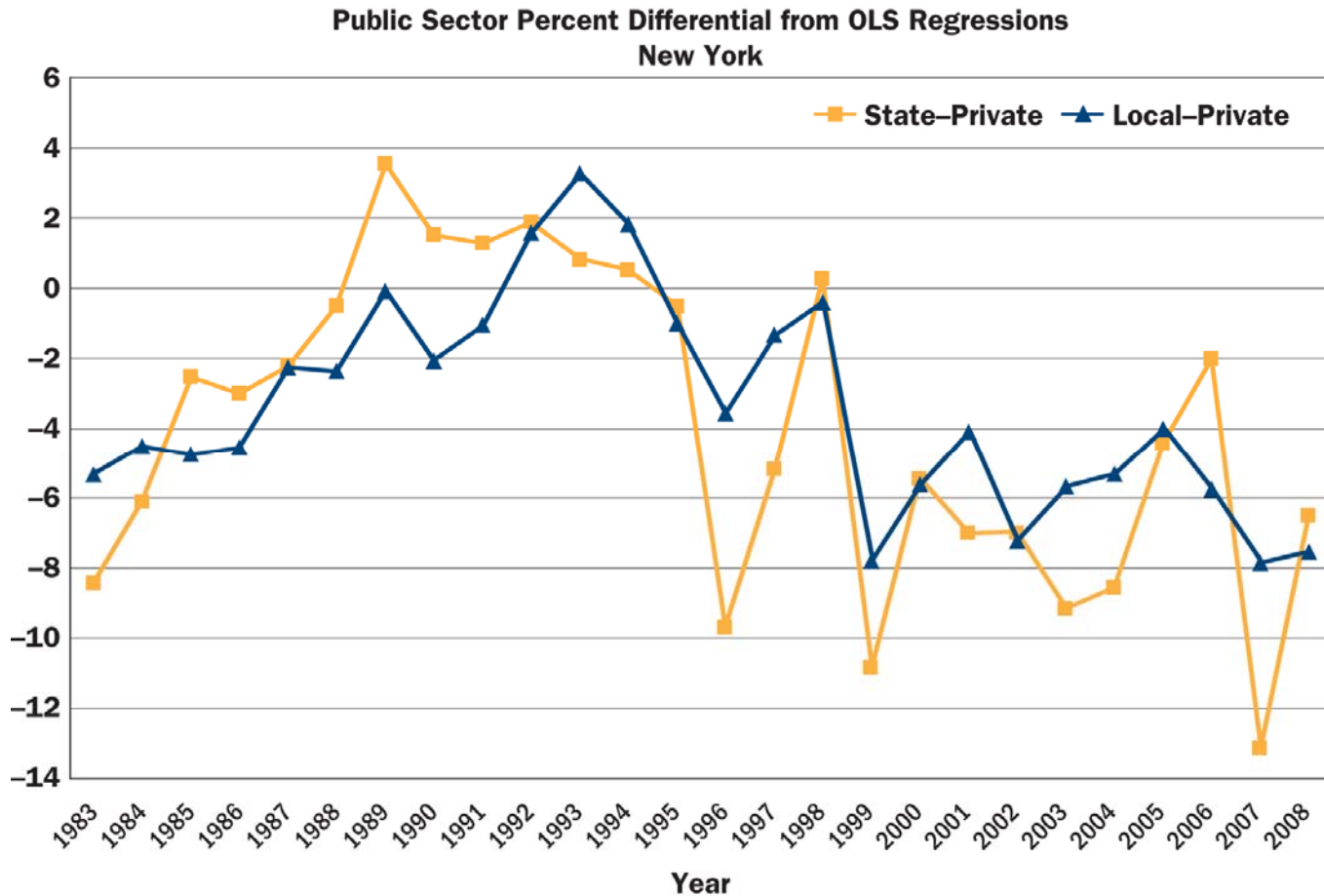
# The Same Pattern Has Held Over Time Across Many Large States

- To compare variations across the nation, we examine several states with larger populations as separate samples.
- In this way, state and local workers from California are compared with private workers from California.
- The pattern of declining relative compensation remains true in most of the large states examined, although some state-level variation exists .

# Public-Private Pay Differentials in California



# Public-Private Pay Differentials in New York





# Pay Differentials in Select Large States

**Table 3.** *Average Public–Private Wage Differentials, 2000–2008*

	<b>State–Private (%)</b>	<b>Local–Private (%)</b>
<b>Full country</b>	–11.4	–12.0
<b>California</b>	–9.8	–6.1
<b>Texas</b>	–16.6	–17.6
<b>New York</b>	–7.0	–5.9
<b>Pennsylvania</b>	–4.5	–12.9
<b>Illinois</b>	–12.5	–13.3
<b>Michigan</b>	–10.1	–11.2
<b>Florida</b>	–4.8	–0.2

*Note:* Controls are the same as in Table 2.

# Benefits Comprise a Greater Share of Compensation in the Public Sector

**Table 4.** *Earnings and Benefits as Shares of Total Compensation*

<b>Sector</b>	<b>Benefits as a share of compensation (%)</b>	<b>Earnings as a share of compensation (%)</b>
<b>Total private sector</b>	29.15	70.85
<b>Large firms in private sector</b>	31.42	68.58
<b>State and local government</b>	32.65	67.35

# State and Local Workers Receive Less Total Compensation

**Table 5.** *Estimated Total Compensation Differentials (Pay and Benefits)*

Earnings estimation	State (%)	Local (%)
All private sector sample	-6.8	-7.4
Large-firm private sector sample	-10.4	-9.8

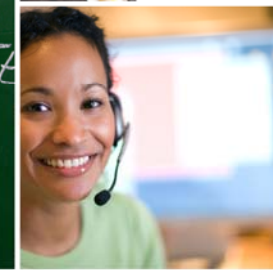
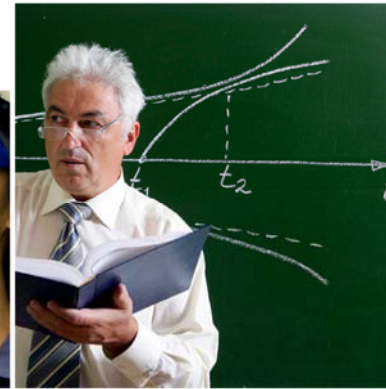
*Note:* Large firms are those with 100 or more workers.

# Conclusions

- Compensation of state and local workers is not excessive, even when including benefits.
- The general pattern over the last 20 years has been one of declining relative earnings of state and local workers.
- This pattern remains true in most of the states examined, although variation exists.

# Conclusions

- The data suggest that now is not the time for large-scale rollbacks in the compensation of state and local workers.
- If the goal is to compensate state and local sector employees in a manner comparable to those in the private sector, the data do not call for reductions in state and local wages.



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