

H. C. FOSTER & COMPANY

Retirement and Welfare Plan Actuaries

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BLS Compensation Update – Winter 2015 and 2016

Wealth building through production enterprises dependent on employees is currently less risky than volatile equity markets and negative net fixed income returns after monetary inflation; but, qualified workers are difficult to find. Sources of labor include the following, each with its own disadvantages:

- Younger workers may require expensive training that increases compensation costs, and have higher employee turnover rates than older, longer-term workers.
- Union employees can be a source of trained workers, but their minimum daily rates for day labor can easily be \$40 per hour with one-half for pension and welfare benefits funding. Bargaining agreements for full-time employees can include sky-rocketing labor contract pension withdrawal liabilities. See average comparable costs on page 2 for BLS private industry workers that total \$30.90 per hour.
- Experienced retired workers are a source of qualified labor at less compensation costs with more value provided as a result of their work experience, but they also tend to be more independent, and likely absent during seasonal off-times.

Employer sponsored, self-administered pension plans replacing a portion of direct compensation help retain current employees and attract new employees at less cost, and direct more of the compensation dollars to higher-paid, longer-service employees, managers, and business owners. Employer sponsored plans also negate the need for the high-cost pension and welfare benefit plans collective bargaining provides as its primary advantage. Collective bargaining efforts will prevail unless employers again sponsor defined benefit pension plans in large numbers.

An employer's *Total Compensation Cost* consists of *Direct Compensation* showing in Forms W-2 and *Indirect Compensation* that includes the employer's costs for benefits funding, Social Security, payroll taxes, regulatory costs, administrative, and other expenses. The Total Compensation Cost for an employee paid \$35,000 in Form W-2 earnings can easily be \$45,500 with a 30% employer cost for Indirect Compensation, and may exceed the employee's commercial value. Total Compensation Costs can usually be redirected in a manner that better meets an employer's objectives.

Our Winter 2013 and 2014 Newsletter provided statistics on page 2 for September 2013 data from Table 5, page 10 of the Bureau of Labor Statistics (BLS) NEWS RELEASE titled Employer Costs For Employee Compensation published December 11, 2013. The distribution of compensation expenses for private industry workers as of September 2015 shows in the extreme right hand column of the Compensation Expenses Worksheet on page 2 of this Newsletter, taken from BLS' NEWS RELEASE published December 9, 2015. Base pay decreased slightly, but non-production bonuses increased sufficiently to offset a decrease in overtime and premium pay to stabilize Direct Compensation at 79.9% of total compensation costs, unchanged from September 2013. Employers' total retirement and savings compensation costs increased from 3.7% two years ago to 4.0% in September 2015, with both defined benefit and defined contribution plan contribution costs increasing.

No easy solutions exist for compensation management. Actual compensation costs are revealed through compilation of the Compensation Expenses Worksheet on page 2 for each employee. Each employer should substitute the applicable BLS statistics in the extreme right hand column for his particular industry. This systematic analysis can be the first step to reducing compensation costs.

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Compensation Expenses Worksheet

Employee: _____ Birthdate: __/__/__ Hire date: __/__/__ Classification: _____
 Employer: _____ Date prepared: __/__/__ Compensation period ending: __/__/__

Direct Compensation		Employer's % for Employee	Employer's % Total Comp.	BLS Totals* %/hourly costs
Base pay -	\$	%	%	69.7%/\$21.98
Paid leave and supplemental** -				
Vacation	\$			3.6%/\$1.13
Holiday	\$			2.1%/\$0.66
Sick	\$			0.8%/\$0.26
Personal	\$			0.4%/\$0.12
Overtime and premium	\$			0.8%/\$0.27
Shift differentials	\$			↑0.2%/\$0.06
Bonuses, non-production	\$			2.3%/\$0.71
Other _____	\$			0.0%
Administrative cost***	\$ _____			0.0%
Totals	\$	%	%	79.9%/\$25.19 ↑ rounded up
Indirect Compensation		Employer's % for Employee	Employer's % Total Comp.	BLS% Total Compensation
Insurance and retirement -				
Life	\$	%	%	0.1%/\$0.04
Health	\$			7.7%/\$2.44
Short-term disability	\$			0.2%/\$0.06
Long-term disability	\$			↑0.2%/\$0.05
Defined benefit	\$			1.7%/\$0.55
Defined contribution	\$			↑2.3%/\$0.70
Other _____	\$			0.0%
Administrative costs	\$			0.0%
Legally required benefits -				
Social Security	\$			4.6%/\$1.45
Medicare	\$			1.2%/\$0.36
Federal unemployment	\$			0.1%/\$0.04
State unemployment	\$			0.6%/\$0.20
Workers' compensation	\$			1.4%/\$0.45
Other _____	\$			0.0%
Administrative costs	\$ _____			0.0%
Totals	\$	%	%	20.1%/\$5.71 Key result---->
Grand Totals:	\$ _____	100.0%	100.0%	100.0%

*See BLS report for "All workers" for private industry workers, Table 5 on page 10 of December 9, 2015 report. These values are as of September 2015, and should be replaced for the employer's specific industry from the latest BLS report. Average Social Security retirement cost is less than expected due to excluded coverage groups. **The BLS categories are regrouped into Direct and Indirect Compensations since BLS treats Paid Leave and Supplemental Pay as a "benefit" although these amounts appear on an employee's Form W-2. ***BLS values presumably do not include employers' administrative costs that do not filter to employees' compensations, but are an employer's expense of his compensation program. Average hourly pay rates, including benefits, allocate as follows: \$55.69 for management, professional, and related, up 7.66%; \$24.06 for sales and office personnel, up 4.33%; and, \$14.57 for service workers, up 2.10%. Percentages are increases since September 2013.

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