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Retirement and Welfare Plan Actuaries

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Compensation Update – Spring 2017

The distribution of compensation expenses for private industry workers as of December 2016 appears in the extreme right hand column of the Compensation Expenses Worksheet on page 2 of this Newsletter. Data for all worker classifications appears in the March 17, 2017 edition of the Bureau of Labor Statistics (BLS) NEWS RELEASE titled Employer Costs For Employee Compensation. For All Workers, hourly base pay increased from \$21.98 to \$22.83 for a 3.87% increase from September 2015. Non-Form W-2 Wage expenses continue at about 20% of total compensation expenses.

Several factors favor employers: (a) trained workers are not available to fill the 5 million openings that require skilled workers. Employers can train new employees in exchange for service commitments as occurs in Europe; (b) older, skilled workers with strong work ethics are abundant, and no one can replace them. Many older workers must supplement insufficient retirement and medical benefits through post-retirement employment; (c) the labor participation rate is currently about 63% of the population. Tens of millions of available workers will emerge at favorable wage rates when social conditions offer no other choices; (d) smaller businesses, often actively managed by their owners, continue to account for nearly one-half the private sector payroll, and create nearly two-thirds of new job formations. Smaller businesses can be sources of high quality products and services to larger employers at reasonable costs; and, (e) the purchasing power of average wage earners remains at mid-1970s levels. They will hustle for wage and benefit gains exceeding inflationary cost increases to maintain their standard of living.

The wage levels shown in the BLS compensation surveys are a natural selection of the employers holding wage costs at levels that produce profits on compensation. Each category of employee compensation costs should be allocated proportionately to each item of production. For example, a widget may require one hour of labor at \$15.18, and \$10.00 of allocated administrative, management, distribution, sales, other non-production costs, and operating expenses. Assuming a targeted clear profit of \$2 for each widget, a market value of \$27.18 must be attainable. Employers can work systematically to align wage and benefit costs with product market values and targeted profits as follows:

1. Complete the Worksheet on page 2 for each employee, and compare with the BLS results for the employer's specific industry and employee categories, i.e., management, sales and office, and service, to expose individual compensations outside industry pay ranges. The profit contributions of non-production workers' compensations are subjective, but can be allocated to each unit of production proportionally in the same manner as maintenance and other operating costs.
2. Redirect some Form W-2 Wages to indirect employer costs for pension and welfare benefits to achieve a compensation package for each employee reflective of his or her market value of production. Provide copious employee communications to apprise employees of their "hidden paychecks". Enable employees to achieve real income gains through overtime and incentive programs. Add and enhance employer funded pension and welfare plan benefits as very positive incentives for existing employees to remain employed and new employees to accept job offers.
3. Seek less expensive labor from among: (a) younger persons willing to sign employment contracts in exchange for training; (b) older persons in retirement who may possess scarce skills; (c) persons among the non-job seeking population who actually prefer employment; (d) independent contractors; and, (e) small entrepreneurial firms offering specialized products and services at reasonable prices. Retirement and welfare benefit costs for some of these groups are minimal or nonexistent.

Continued, next page.

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%/\$22.83
Paid leave and supplemental** -				
Vacation	\$			3.6%/\$1.18
Holiday	\$			2.1%/\$0.69
Sick	\$			0.9%/\$0.28
Personal	\$			0.4%/\$0.13
Overtime and premium	\$			0.8%/\$0.26
Shift differentials	\$			0.2%/\$0.06
Bonuses, non-production	\$			2.5%/\$0.83
Other _____	\$			0.0%
Administrative cost***	\$ _____			0.0%
Totals	\$	%	%	80.2%/\$26.26
Indirect Compensation		Employer's % for Employee	Employer's % Total Comp.	BLS% /Total Compensation
Insurance and retirement -				
Life	\$	%	%	0.1%/\$0.04
Health	\$			7.6%/\$2.48
Short-term disability	\$			0.2%/\$0.06
Long-term disability	\$			0.2%/\$0.05
Defined benefit	\$			1.8%/\$0.58
Defined contribution	\$			2.2%/\$0.73
Other _____	\$			0.0%
Administrative costs	\$			0.0%
Legally required benefits -				
Social Security	\$			4.6%/\$1.50
Medicare	\$			1.2%/\$0.38
Federal unemployment	\$			0.1%/\$0.04
State unemployment	\$			0.5%/\$0.18
Workers' compensation	\$			1.4%/\$0.46
Other _____	\$			0.0%
Administrative costs	\$ _____			0.0%
Totals	\$	%	%	19.8%/\$6.50
Grand Totals:	\$ _____	100.0%		100.0%/\$32.76

BLS rounding is inconsistent.

*See BLS report for "All workers" for private industry workers, Table 5 from the March 2017 BLS Economic News Release. These values are as of December 2016, 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: \$58.14 for management, professional, and related, up 4.40%; \$24.35 for sales and office personnel, up 1.20%; and, \$15.18 for service workers, up 4.19%. Increases are since September 2015 as last reported here.

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