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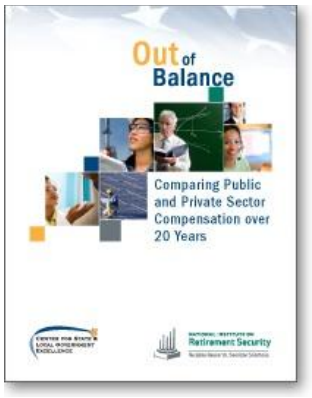
FACT SHEET

Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years

Overview



The current recession and the resulting fiscal difficulties faced by state and local governments have brought a renewed interest in the compensation of public workforces—pay, pensions, and other benefits. "*Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years*," examines the extent to which state and local government compensation in the United States is comparable to compensation in the private sector.

The study was commissioned by the Center for State and Local Government Excellence and the National Institute on Retirement Security. The co-authors are Dr. Keith Bender, Associate Professor, Dept. of Economics, University of Wisconsin-Milwaukee and Dr. John Heywood, Distinguished Professor, Dept. of Economics, University of Wisconsin-Milwaukee.

Key Findings

The study finds:

- Jobs in the public sector typically require more education than private sector positions. Thus, state and local employees are twice as likely to hold a college degree or higher as compared to private sector employees. Only 23% of private sector employees have completed college as compared to 48% in the public sector.

- Wages and salaries of state and local employees are lower than those for private sector employees with comparable earnings determinants such as education and work experience. State workers typically earn 11% less and local workers 12% less.

- During the last 15 years, the pay gap has grown – earnings for state and local workers have generally declined relative to comparable private sector employees.

- The pattern of declining relative earnings remains true in most of the large states examined in the study, although there does exist some state level variation.

- Benefits make up a slightly larger share of compensation for the state and local sector. But even after accounting for the value of retirement, healthcare, and other benefits, state and local employees earn less than private sector counterparts. On average, total compensation is 6.8% lower for state employees and 7.4% lower for local employees than for comparable private sector employees.

Methodology

The study utilizes publicly available data from the Bureau of Labor Statistics and the "people" approach to account for the characteristics that help determine each worker's earnings: education, training, experience, job location, occupation. This enables a comparison of similar employees and isolates the effect of public or private sector employment.

The differences in annual pay between each sector for the last several decades are analyzed, up to and including the latest estimates. The study also estimate the variation of these trends across some of the largest states – California, Florida, Illinois, Michigan, New York, Pennsylvania, and Texas. The study then analyzes benefit levels and composition in the public and private sectors. The earnings comparability estimates are adjusted to include benefits in order to compare overall compensation across public and private sectors.

Conclusions: State, Local Employees Compensated Less Than Private Counterparts

If one holds the education and other characteristics the same, typical state and local workers earn an average of 11 percent and 12 percent less, respectively, than comparable private sector workers.

Workers in the state and local sector get a slightly larger share of their compensation in benefits but it is not dramatically larger. When accounting for this difference, most of the estimates remain negative, suggesting lower total compensation in the state and local sector after accounting for worker and job characteristics.

The implications of study are as follows:

- Compensation of state and local workers is not excessive.

- This remains true when including benefits.
- The pattern of results over the last twenty years has generally been one of declining relative earnings of state and local workers compared to those in the private sector.
- This remains true in most of the states we examined although there does exist some heterogeneity.