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Study: Calif.'s public workers not overpaid

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California's state and local government workers are paid less than the private sector, but when benefits are included, they make about the same compensation, according to a new study out of UC-Berkeley.

The California Project
An Orange County Register special report

The study, by Cal's Institute for Research on Labor and Employment, did not compare specific jobs because there are often no private counterparts to public sector jobs like law enforcement and firefighting. Researchers, however, adjusted for such things as education and experience — important distinctions because the government workforce is more educated and older than the private sector, which could skew their compensation higher. For instance 55% of government workers have a four-year degree compared to 35% of private employees. The study found that state and local government employees are paid about 7% less overall than private workers. Public health and pension benefits, however, are more generous. Government benefits account for about 35.7% of total compensation compared to 30% in the private sector.

Researchers did not compare the relative age of retirement in public versus private jobs or total potential retirement and health benefit payouts over the life of the employee. It simply computed current pay and benefits. (Click on chart to enlarge.)

Size of employers also made a major difference. Small businesses with less than 100 workers, which make up the majority of employers in California, offered much less in the way of retirement compensation than the state and private employers with more than 100 workers.

Workers at the lowest education and pay levels tended to do better in the public sector. For instance, the study found that total compensation for those who didn't have a high school diploma was 24% higher for a government job than a private sector job.

Those with the highest educational attainment — doctors, attorneys, professional employees — earned less than the private sector. A person with a master's degree got 28% less in total compensation for a government job compared to private employment.

The study's conclusion:

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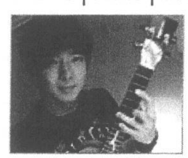

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Read the full report HERE .

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Are California govt. workers overpaid?

- Yes, this study is hogwash
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POLICY BRIEF
October 2010

Institute for Research on Labor and Employment
University of California, Berkeley

The Truth about Public Employees in California: They are Neither Overpaid nor Overcompensated

Sylvia A. Allegretto and Jeffrey Keefe*

Introduction

Recently, there has been a great deal of debate and consternation over the compensation of public-sector employees across the U.S. It has been asserted that state and local government employees are overpaid compared to workers in the private sector. In California government workers have been vilified as scandals and anecdotes pass as confirming evidence of exorbitant pay. This research is especially important given the outrage over the pay of municipal officials in Bell, California. The outrage over what happened in Bell is reasonable and just. Many of the players immediately resigned and on September 21, 2010 eight city officials were arrested.[1] Those arrested include the former city manager of Bell, Robert Rizzo, who was making nearly $800,000 a year. Rizzo was charged with 53 counts. It is alleged that Rizzo, without approval from the City Council, actually wrote the conditions of his own contract—the case keeps growing in terms of scope and involved officials. It is clear by the arrests and scores of allegations that the situation in Bell was not in line with usual procedures.

While anecdotes that stem from public-sector corruption capture much attention, it is a data-driven analysis of public-sector pay and compensation that is needed to answer the question: How do the pay and benefits of public sector workers compare to those in the private sector? This is a legitimate question that should not be answered anecdotally. The research in this paper investigates empirically whether California public employees are overpaid at the expense of California taxpayers.

The results from this analysis indicate that California public employees, both state and local, are not overpaid. The wages received by California public employees are about 7% lower, on average, than wages

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Thus, the difference in workforce characteristics and benefit allocations between the public and private sectors is why a regression-adjusted analysis is employed in this research. The regression framework allows a comparison of similar workers controlling for factors which influence compensation levels. A standard wage equation produced a surprising result: full-time state and local employees are under-paid by about 7% compared to their private sector counterparts. However, a re-estimated regression equation of total compensation (which includes wages and benefits) demonstrates that there is ***no*** significant difference in total compensation between full-time state and local employees and private-sector employees.

The Challenge of Analyzing Public Employee Compensation

To answer whether California public employees are overpaid two simple but related questions need to be asked: compared to whom? And compared to what? The standard of comparison for public employees is usually similar private sector workers, with respect to education, experience, and hours of work.

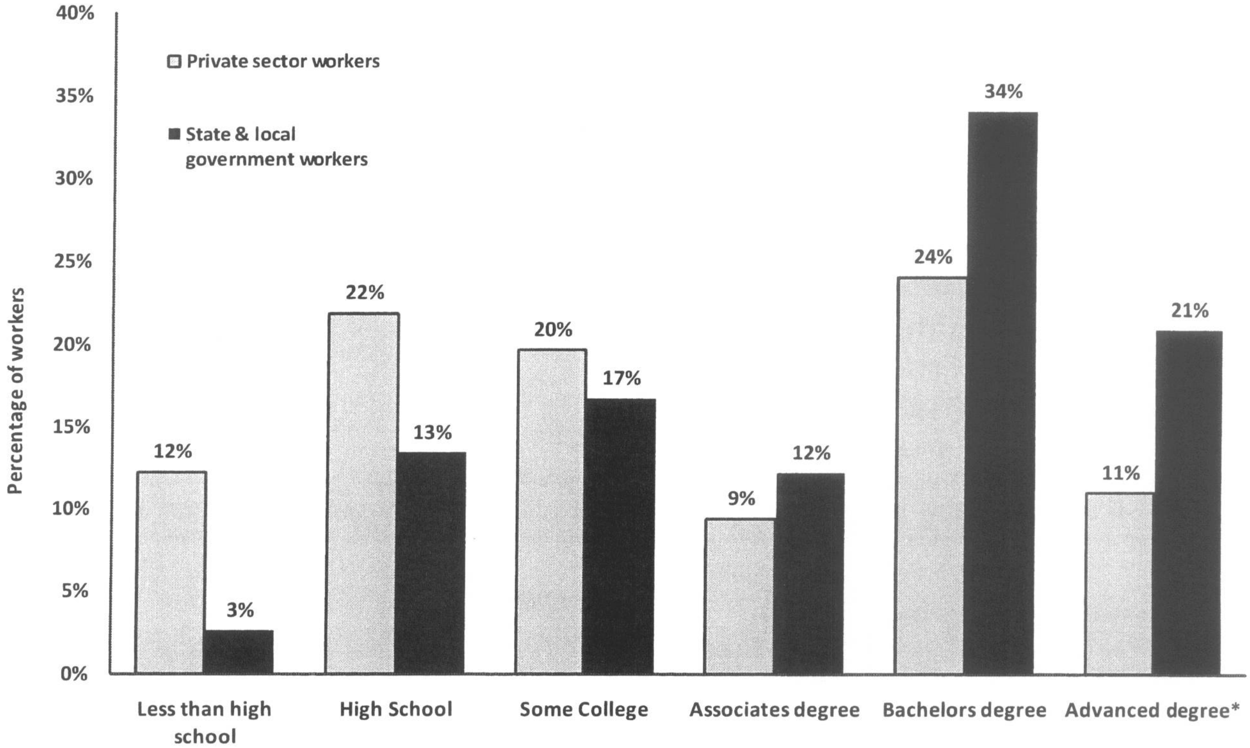
Ideally, we would compare workers performing similar work in the public sector with the private sector, but this is not always possible. There are too many critical occupations in the public sector, for example, police, fire, and corrections, without appropriate private sector analogs. Even private and public teaching is significantly different. Public schools accept all students, while private schools are sometimes highly selective and may exclude or remove poor performers and special needs or disruptive students. Consequently, comparing workers of similar "human capital" or fundamental personal characteristics and labor market skills is considered the best alternative. Analyses based on comparisons of personal characteristics capture most of the important and salient attributes in comparable work studies.

Prior research reveals that education level is the single most important earnings predictor for all workers. Education helps create work-relevant skills. People invest heavily in their own and their children's education by buying homes in communities with good schools and by paying or taking on debt to attend schools, colleges, and universities. Empirically, education is followed by experience in advancing earnings. People learn by doing and by working in a variety of job tasks as they advance through occupational levels. Most occupations reward experience and on-the-job learning as they are associated with more competent and productive performance.

Other factors widely found to affect compensation include gender, race, ethnicity and disability. However, productivity-related human capital differences (e.g., training and education) are inter-mingled with labor market disadvantages stemming from historical patterns of discrimination. We account for all of these factors in our study. When analyzing hours of work most studies exclude part-time workers for a number of reasons: their hours of work vary, they earn considerably less than comparable full-time workers, they are more weakly attached to the labor force, and they often lack benefit coverage. This study follows standard practice by focusing on full-time public and private sector employees, who represent over 80% of the state's labor force, and by controlling for hours worked per year.

It is well known that an employer's organizational size greatly influences employee earnings. We are fortunate to be able to account for the size of the firm where each sampled full-time worker was employed. This control variable is made possible by the Integrated Public Use Microdata Series of the March Current

Chart 1 Educational attainment of California workers in the private sector versus those in state and local government



Source: Current Population Survey, IPUMS 2009. *Includes Professional, Masters and Doctorate degrees.

Chart 1 illustrates the dissimilar distributions of education for workers in the private and public sectors. Approximately 55% of California public employees hold a Bachelors or advanced degree compared to 35% of private-sector workers. Table 1 shows the educational distribution for the total private sector and by firm size in the first four columns and for the public sector in column 5. The *returns to education*, which is the average increase in earnings associated with incremental increases in educational attainment, are reported in the last column of Table 1. The percentages for each level of education are in comparison to workers who have not completed high school.[2] For example, a high school graduate, all else being equal, earns on average 39% more than a worker without a high school diploma. The education premium jumps to 57% on average if the worker attended some college or 70% if the worker holds an Associates degree. Completing college with a Bachelors degree yields a 98% premium and a professional degree (law or medicine) increases average earnings by 178% compared to an individual without a high school diploma. A Masters degree yields an average 128% pay premium and a Doctorate produces a 159% return.

Table 2 Annual earnings and total compensation comparisons by level of education for workers in California

Education level	Private sector	Public sector	Difference: public-private	Public sector premium/penalty
Annual wage earnings				
Less than high school	$25,964	$29,640	$3,677	14%
High school	$39,642	$38,903	-$739	-2%
Some college	$45,609	$47,717	$2,107	5%
Associates degree	$53,376	$53,617	$241	0%
Bachelors degree	$72,313	$62,337	-$9,976	-14%
Professional degree	$185,465	$163,949	-$21,515	-12%
Masters degree	$107,017	$71,527	-$35,490	-33%
Doctorate degree	$124,851	$108,897	-$15,954	-13%
Total compensation				
Less than high school	$33,607	$41,725	$8,118	24%
High school	$50,563	$54,269	$3,706	7%
Some college	$57,229	$66,094	$8,865	15%
Associates degree	$66,695	$73,622	$6,927	10%
Bachelors degree	$88,852	$84,040	-$4,812	-5%
Professional degree	$228,913	$217,343	-$11,570	-5%
Masters degree	$131,040	$94,753	-$36,288	-28%
Doctorate degree	$153,980	$144,470	-$9,511	-6%

Source: Current Population Survey: IPUMS 2009.

For example, a full-time worker without a high school education earns on average 14% more when employed by state and local government ($29,640) compared to the private sector ($25,964). When the comparison is total compensation (including benefits), the public sector premium jumps to 24% for workers without a high school diploma ($41,725) compared to similarly educated private sector employees ($33,607).

Just considering wages, high school graduates approach earnings equivalency between private and public sector with public sector workers earning wages 2% less than their private sector counterparts. Nonetheless, when we examine total compensation, high school graduates earn $3,706 (7%) more annually in the public sector.

However, the wages and total compensation received by public sector workers at higher levels of education are less than comparable workers in the private sector. The relatively better benefits received by educated public sector workers are not enough to compensate for the pay difference. For example, government workers with a Bachelors degree earn on average 14% less than similarly educated workers in the private sector. When considering total compensation, these public-sector workers still receive 5% less.

Table 3 The distribution of employer costs of compensation for private employers by firm size and for state and local government

Employer Costs	Private sector employers				State and local government
	All	1 to 99 employees	100 to 499 employees	500 or more employees	
Total compensation	**100%**	**100%**	**100%**	**100%**	**100%**
Wages and salaries	**70.0%**	**72.8%**	**69.6%**	**66.5%**	**64.3%**
Total benefits (itemized below)	**30.0%**	**27.2%**	**30.4%**	**33.5%**	**35.7%**
Paid leave (Vacation, holiday, sick)	*7.4%*	*6.2%*	*7.3%*	*9.2%*	*8.6%*
Supplemental pay (bonus, overtime)	*2.8%*	*2.3%*	*2.9%*	*3.5%*	*1.1%*
Insurance (health, life, disability)	*7.7%*	*7.0%*	*8.2%*	*8.2%*	*11.8%*
Retirement benefits	*3.6%*	*2.5%*	*3.4%*	*5.6%*	*8.2%*
Legally required	*8.5%*	*9.3%*	*8.7%*	*7.0%*	*6.0%*

Source: BLS ECEC December 2009 data. Unpublished compensation data for the Pacific Census division.

On the other hand, public employees receive considerably more of their compensation from employer-provided insurance. Insurance accounts for 7.7% of private sector compensation but 11.8% of state and local government employee costs. Retirement benefits also account for a substantially greater share of public employee compensation, 8.2% compared to 3.6% in the private sector. As with most benefits, the differences between private and public employees' compensation costs shrink for larger private-sector firms.

Legally required benefits account for a greater share of the small employers' compensation, as organizational size increases these benefits costs decrease in relative importance. In local and state government employment, legally required benefits represent a substantially smaller share of benefit costs for several reasons. First, a nontrivial number of public employees do not participate in social security, which partially explains their higher pension costs.[3] These employees are not eligible for Social Security benefit payments at retirement unless they chose to work in another job elsewhere which is covered by Social Security. Second, state and local governments do not participate in the federal unemployment system. Lastly, since state and local governments offer more stable employment they pay lower rates into the state unemployment insurance trust fund, because unemployment insurance contribution rates are partially experience rated.[4]

In summary, state and local government workers receive more of their compensation in employer-provided benefits. Specifically, public employers contribute relatively more toward employee health insurance and retirement benefits costs. Public employee benefit costs, however, are relatively lower for supple-

What is the relative pay and total compensation of public sector workers compared to those in the private sector? The CPS data on earning with the ECEC data on benefits allow us to answer these questions. The ECEC data are employed to calculate total employer compensation costs for each employee in the sample.[5] Each observation has an earnings and total compensation measure. Table 5 reports the results of a standard earnings equation on four measures: annual and hourly earnings; and annual and hourly total compensation.

Table 5 Regression adjusted wage and compensation premium for public sector workers in California

	Earnings		Total compensation	
	Annual	Hourly	Annual	Hourly
State & local government	-7.77% ***	-6.36% **	0.89%	2.29%
State government	-7.55% *	-8.92% *	1.07%	-0.28%
Local government	-7.86% ***	-5.38% *	0.01%	3.28%

Control variables: hours of work, education, experience, organizational size, gender, race, and disability.

Significance levels: probability estimate 0 is * >.05, **>.01, and ***>.0001

The estimates represent the earnings and total compensation premium of California state and local government workers relative to private sector workers. Columns 1 and 2 provide estimates for employee wages. The annual wages of state and local California public employees are 7.77% less than comparable private sector workers (earning results are all statistically significant). The estimates in rows 2 and 3 separate out state and local workers. State workers earn 7.55% less than workers in the private sector and local government workers earn 7.86% less. The results in column 2 compare hourly wages. Overall, the hourly wages of California's state and local employees are 6.36% less than employees in the private sector. Separately, the hourly wage gap is 8.92% for state and 5.38% for local government workers in California.

Now that it has been established that public sector workers are ***not*** overpaid what happens when benefits are considered? Results on total compensation, annual and hourly, show that the more generous benefits received by public sector workers is just enough to make up for the significant negative wage gap—these results are reported in columns 3 and 4. Importantly, the point estimates are very small and none of the estimates are statistically different from zero. *There is no measurable difference in total compensation between public and private sector workers.*

The results presented here provide strong evidence that California public employees are not over-compensated when compared to similar private sector workers.

market alternatives to government employment. Additionally it is well known that taxpayers do not want to pay higher taxes. Taxpayers exert considerable pressure on elected representatives to resist increases in compensation, which creates a formidable incentive and opportunity to hold government pay below market rates. Unionization represents a viable legal response to employer labor market power. The pattern of California public employee unionization is consistent with broader global patterns of unionization. For example, a study of 27 developed countries found a pattern of public employee unionization consistent with that of California (Blanchflower 2006). The study reports that union density is negatively correlated with education in the private sector and positively correlated in the public sector—just as we observe in California. Possibly, a more important question for policy makers, rather than why highly educated public employees are unionized, is why relatively less educated and low-paid private sector employees are inadequately represented by unions.

The Great Recession continues to leave a great deal of economic pain and scarring in its wake. But, the vilification of government workers is sorely misplaced and has left the real culprits of this devastating downturn off the hook. Compensation received by public sector employees is neither the cause—nor can it be the solution—to the state's financial problems. Only an economic recovery can begin to plug the hole in the state's budget. Unfortunately, the current budget balancing efforts in California are anti-simulative and further act to depress demand in an economy already operating way below capacity. Budget cuts have helped to keep California's unemployment rate well into the double-digits for over a year and a half—and there is no end in sight. Thousands of California public employees have lost their jobs and many more have forgone pay through forced furloughs and their families have experience considerable pain and disruption. All the workers who have lost their jobs or took cuts in pay or benefits were made to do so not because of their work performance, or because their services were no longer needed, nor because they were overpaid. They were simply causalities among a list of millions of hard working innocent victims of a financial system run amuck. Public sector workers help our communities to thrive and provide services that make it worthwhile to live in them—it is wrong to blame them for the fallout from the greatest economic downturn since the Great Depression.

Troske, Kenneth. 1999. Evidence on the Employer Size-Wage Premium from Worker-Establishment Matched Data. *The Review of Economics and Statistics*, February 1999, 81(1): 15–26.

U.S. Department of Labor, U.S. Bureau of Labor Statistics, (U.S, DOL). 2010. Employer Costs for Employee Compensation, December 2009 with unpublished detailed compensation data for the Pacific Census division. (Alaska, California, Hawaii, Oregon, Washington).

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U.S. Joint Committee of Taxation. 2006. Estimates of Federal Tax Expenditures for Fiscal Years 2006-2010. GPO.

This study uses these ECEC sample estimates to calculate relative benefit costs for each private and public employee in the California sample. The calculation was done by calculating the relative benefit mark-up for each private sector employee based on the size of the organization that employed the worker and their occupation. The mark-ups are reported in Table A1. State and local government employees' wages were similarly marked up using a benefit weight calculated using the ECEC data. It is assumed that when employees share information about their earnings they do not distinguish paid time off from time worked in salary data. Therefore paid time off is not included in the mark-up. CPS wages also include supplemental pay.

The mark-up used in this study for benefits does not include paid leave or supplemental benefits. The average mark-up for state and local government employees was 0.3519. The average mark-up for workers in small, median and large private sector firms was 0.2310, 0.2535, and 0.2624, respectively. IPUMS CPS sample for California from 2009 was used for the estimates shown and the sample size was 4835.

Endnotes

[1] There have been eight arrests in Bell over the pay scandal: http://abcnews.go.com/US/bell-calif-city-leaders-arrested-salary-scandal/story?id=11691192.

[2] A standard earnings equation using CPS data for full-time workers in California was estimated to produce the estimates of the returns to education.

[3] The Social Security Act of 1935 excluded state and local workers from mandatory coverage. Legislation in the 1950s allowed states to elect voluntary coverage for their employees (Munnell and Soto 2007).

[4] The less an employer's former employees use unemployment the lower the rates and vice versa.

[5] The data appendix provides details on the merged data set and the methods used to create it.

[6] See Keefe 2010b page 3.