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Government Jobs Pay Better than in Private Sector

By Jim Nowlan

The recent attention nationally on state budget deficits and tax increases, such as in Illinois this past month, has spurred a look at compensation for state and local government employees.

The answer is that, overall, state and local government employees overall fare better than their counterparts in the private sector, but comparisons are difficult because the public sector is so heavily weighted with decent-paying education jobs as well as positions such as police and fire for which there are few equivalents in the private sector. Nevertheless, there are some distinct advantages to working in the public sector, including superior health care and pension benefits overall and greater job security.

Aggregate total compensation (includes benefits) for state and local government employees in the U.S. reached \$40.10 per hour in 2010 compared with \$27.88 for those in “private industry” (basically all non-farm jobs). The U.S. Bureau of Labor Statistics reported in September 2010 that per hour wages for state and local government (S&L) employees averaged \$26.25 versus \$19.68 in private industry.

In addition, benefits represented \$13.85 per hour compared with just \$8.20 in private industry. The most significant differences in benefits lay in health insurance (\$4.80 per hour in S&L versus \$2.24 in private sector) and retirement and savings (\$3.26 per hour in S&L compared with \$0.99 in private industry.)

S&L workers are highly concentrated in the education sector, which represents 53 percent of all S&L employees. This sector includes teachers and university professors,

two categories with high unionization rates and high compensation costs. Teachers had the highest total compensation costs among S&L employers in 2007, according to Ken McDonnell of the Employee Benefits Research Institute, at \$53.39 per hour worked. By contrast, services represented the largest component of the private sector, at 47.9 percent of the total, and total compensation costs were just \$24.91 per hour worked.

High skill positions in the private sector tended to pay higher wages than in the S&L sector. For example, in 2007 lawyers in all industries earned \$56.87 per hour versus \$37.65 for those in state governments (benefits are excluded in this comparison). Dentists in the private sector earned \$70.68 per hour compared with \$52 in S&L governments. On the other hand, nursing aides, orderlies and attendants in the S&L sector fared better than did their private sector counterparts (\$13 per hour v. \$11.50) as did bookkeeping, accounting and auditing clerks (\$16.10 v. \$15.76).

Economist Keith Bender told a 2009 Federal Reserve Bank of Chicago conference on public-private compensation that “in low skill jobs, public sector wages exceed private sector wages but in high skill jobs, public sector wages significantly lag private sector wages.”

University of Illinois finance professor Jeffrey Brown reports that the public sector provides more generous benefits and greater employer subsidies than does the private sector. He noted that 60 percent of part-time S&L employees receive pension benefits and two-thirds of the public pensions include automatic cost of living increases, which are now rare in the private sector. Brown observed, however, that about 25 percent of S&L employees across the nation do not participate in Social Security, and thus rely heavily on their pensions in retirement.

In addition to stronger health care and pension benefits, public sector employees overall have greater job security. The median years-on-the-job for public sector employees (including federal employees) was more than seven years yet only about half that for private sector workers. This represents a valuable psychological benefit, though hard to put in money terms.

In Illinois, the state of Illinois public employee union contracts, which cover most state workers, will see a 34 percent increase in compensation between 2004 and 2012, when the present contracts expire, according to John Hartnett, a labor-management bargaining expert with the University of Illinois Institute of Government and Public Affairs.

Given, however, the poor condition of state and local budgets in Illinois, S&L employee compensation will face pressures in the future similar to those in the private sector to limit or reduce compensation and benefit levels.