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Kevin F. Hallock

University of Richmond, president@richmond.edu

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The Disconnect Between Employer Costs and Employee Value



Cornell University
ILR School
Institute for Compensation Studies

Kevin F. Hallock

Chair and Professor,
Department of Labor Economics

Professor,
Department of HR Studies

Director,
Institute for Compensation Studies

Member,
2010-2011 WorldatWork
Board of Directors

There is an enormous disconnect between the cost of compensation to employers and the value employees place on that compensation. Compensation practitioners understand that there is more to “total compensation” than wage and salary income. These additional issues span much more than insurance, stock options and pensions and can include issues like work-life balance and workday amenities. But do employees really understand how much they cost employers? Some obviously do but most do not.

This article focuses on three main issues. First, in very simple terms, it documents that companies pay a lot more for workers than workers see in their paychecks, using U.S. data to make the point. Second, it discusses reasons why workers don’t understand how much they are fully paid and gives a call to practitioners to do better. Third, I consider the fact that different workers may value the same piece of compensation (e.g., child-care benefits) quite differently and ask whether organizations should do anything about it.

Employer Costs of Employee Compensation

To take an example from one country, according to *Employer Costs of Employee*

Compensation Survey, in the United States only 69.7 cents of every dollar of employee cost to employers goes to the employee in terms of wage or salary. That is, more than 30 percent of employer costs for workers goes somewhere other than directly into the employee’s paycheck (and this is independent of tax rules).

So where does the rest of the money go? As shown in Figure 1 on page 11, the average worker in the United States costs his/her employer \$29.52 per hour. But only \$20.50 of that appeared in the worker’s paycheck as wage and salary income. This \$8.96 (more than the federal minimum wage) per hour is attributable to other employer costs that employees don’t immediately see. Of the \$8.96, \$2.04 is for paid leave, \$0.71 is for supplemental pay, \$2.60 is for insurance, \$1.31 is for retirement savings, and \$2.30 is for legally required benefits (e.g., Medicare). Certainly, some of this ends up going to the employee at some point (e.g., pension) but this isn’t well understood by most workers.

If Your Noncash Benefits are Good, Say So

I suspect that most workers have no idea how much more employers are paying than they actually receive.

INTRODUCTION

We hope you’ll enjoy the first installment of the new column, which aims to connect research with practice.

FIGURE 1: EMPLOYER COSTS PER HOUR WORKED

	All Workers	
	Cost	%
Total Compensation	29.52	100.0
Wages and salaries	20.55	69.6
Total benefits	8.96	30.4
Paid leave	2.04	6.9
Vacation	0.98	3.3
Holiday	0.64	2.2
Sick	0.31	1.1
Personal	0.10	0.4
Supplemental pay	0.71	2.4
Overtime and premium	0.25	0.9
Shift differentials	0.06	0.2
Nonproduction bonuses	0.40	1.3
Insurance	2.60	8.8
Life	0.05	0.2
Health	2.46	8.3
Short-term disability	0.05	0.2
Long-term disability	0.04	0.1
Retirement and savings	1.31	4.4
Defined benefit	0.80	2.7
Defined contribution	0.50	1.7
Legally required benefits	2.30	7.8
Social Security and Medicare	1.67	5.7
Social Security	1.33	4.5
Medicare	0.34	1.1
Federal unemployment insurance	0.03	0.1
State unemployment insurance	0.16	0.6
Workers' compensation	0.44	1.5

But why? There are a few reasons. First, some forms of compensation are difficult to understand (even by HR practitioners) and are, therefore, difficult to communicate. Second, I suspect that many HR practitioners are feeling overworked and are doing their best just to keep up with the normal administration of benefits and systems and don't have the time or resources to properly communicate the value of compensation. Third, if your organization has relatively poor nonwage compensation and benefits, why would you want to publicize it?

However, many organizations *do* have generous nonwage and salary rewards systems and they should be doing everything they can to communicate that to their employees. If your organization has good health insurance, child-care services and other nonwage benefits, why not total up the per-employee cost and tell employees the value of their total rewards package?


Not All Employees Value Compensation Similarly

Even if you do add up all of the total rewards in your compensation and benefits package, you may get some pushback from employees that they would never buy a certain benefit since it is "worthless" to them (i.e., "Why do I care if pet insurance covers cats? I am a dog person!").

I think the issue of how employees value certain forms of compensation is a fruitful area for work by practitioners and academics alike. For all faculty and staff, Cornell pays a certain fraction of a child's tuition if the staff member's child goes to Cornell. And Cornell pays a smaller fraction if the child goes

elsewhere. Some faculty members, like me (I have two kids), love this and value it very highly. And some (without children) place little or even no value on this. Cornell could remove the benefits and pay everyone more in cash. So workers, sitting side by side, value this benefit quite differently.

Another example is from a high-tech firm I worked with a few years ago. This company set the total compensation of each employee and then let the employees choose the mix of pay (between salary, at-risk bonus and stock options). Different workers chose different forms of pay. For example, men were much more likely to choose at-risk bonus and stock options, relative to women. In essence men valued at-risk pay relatively more, and women valued cash pay relatively more.

Eliciting the value different kinds of employees place on different forms of compensation and how that could benefit both organizations and employees is an interesting subject. 

The Institute for Compensation Studies (ICS) at Cornell University analyzes, teaches and communicates about monetary and nonmonetary rewards from work, and how rewards influence individuals, companies, industries and economies. ICS research and leading-edge insight addresses compensation issues challenging employers and employees in today's dynamic global marketplace.

Kevin F. Hallock is professor and chair of the Department of Labor Economics; professor of the Department of HR Studies; director of the Institute for Compensation Studies at Cornell University; and a member of the board of directors of WorldatWork. He can be reached at hallock@cornell.edu or www.ilr.cornell.edu/ics.

Source: National Compensation Survey, September 2010