

# Memorandum



TO: Susan Fox, Legislative Fiscal Division  
FROM: Barbara Wagner, Chief Economist, Montana Dept. of Labor and Industry,  
CONTACT: [bwagner@mt.gov](mailto:bwagner@mt.gov) or (406) 444-5474  
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SUBJECT: Various data regarding legislator compensation

You asked several questions regarding the compensation and benefits for legislators, including comparative wages, benefits, and methods of wage escalation. There is not one source of data that can be used to answer all of these questions easily, but several sources of information can help to answer parts of the question. This memorandum provides background information and some available data to understand legislator compensation compared to other state employees and other Montana workers. The highlights are:

- According to Bureau of Labor Statistics data, legislators in Montana earn wages at a rate equal to \$34,780 per year, ranking 14<sup>th</sup> highest in the country. The definition of legislators includes elected leaders from county, tribal, city, and state governments.
- Data is not available on the level of benefits paid to legislators in other states or to private sector employees in Montana, although assumptions can be made about the level of benefits provided using other data sets. If Montana legislators earned benefits equal to the Montana average, their total compensation is expected to average \$43,584, not including paid leave benefits.
- Wage escalation contracts are fairly common across employers, but they take many forms. The most common wage escalation method is to adjust worker's wages by the Consumer Price Index for Urban Consumers (CPI-U), which is the most common inflation measure used in the U.S.
- Inflationary wage adjustments are also commonly referred to as cost-of-living increases, and they are NOT raises. Increasing wages at the rate of inflation keeps workers at the same standard of living as the prior year.
- Wage escalation using the CPI-U from the first half of 2014 to the first half of 2016 would result in a 0.98% increase.
- In contrast, wages increased by 2.3% per year on average for state government employees and 3.0% on average across all Montana workers during the 2010-2015 time period. Wage growth for all workers reflects a changing industry mix, increased productivity and output growth, and promotions and bonus payouts, in addition to any inflationary increases by individual employers.
- Inflationary wage increases keep workers at the same wage level, adjusting the wage for inflation. Pay raises, promotions, or bonuses are typically used to reward performance and increased productivity.

## Wages

The most straightforward information provided is the comparative wages paid to legislators in other states. As you know, the Department of Administration (DOA) conducts a biannual market pay study for state employees each year. Although the methodology used for the market study has changed in recent years, DOA uses three data sources to determine the market for state employee pay: data from a private source, Salary.com; the Central States Compensation Association; and the Occupational Employment Statistics (OES). The last of these sources, the OES, is produced by the Bureau of Labor Statistics (BLS). The Montana Department of Labor and Industry is the BLS agent for Montana, and helps develop and distribute this national data source.

Table 1: Wages for Legislators in Select States, 2015					
Area name	Employment	Annual mean wage	Wage percent RSE (1)	Annual median wage	Rank of Mean Wage among 50 States
Alabama	1,430	\$22,690	1.6	\$18,380	32
Alaska	150	(2)-	(2)-	(2)-	
California	3,220	\$59,320	2.1	\$54,740	5
Colorado	690	\$72,790	8.8	\$55,570	4
Idaho	1,040	\$22,310	5.1	\$17,900	38
Illinois	4,290	\$42,470	6.4	\$20,800	17
Minnesota	1,420	\$27,490	5.8	\$18,670	30
Mississippi	1,000	\$25,530	4.8	\$18,470	31
Montana	330	\$34,780	4.3	\$25,340	14
North Dakota	210	(2)-	(2)-	(2)-	
South Dakota	100	\$42,890	2.2	\$43,940	6
Texas	1,610	\$42,160	5.7	\$27,780	12
Utah	670	\$33,230	6.5	\$19,210	21
Washington	1,000	\$84,900	5.8	\$59,090	2
Wyoming	70	\$38,570	4.6	\$32,730	11

Source: Occupational Employment Statistics, May 2015, Bureau of Labor Statistics (except for last row regarding total compensation). Annual wage calculated assuming 2,080 hours (full-time, year-round). SOC 111031.

(1) The relative standard error (RSE) is a measure of the reliability of a survey statistic. The smaller the relative standard error the more precise the estimate.

(2) Estimate not released.

The OES is a national survey of wages and employment by occupation that is produced annually by the BLS using a survey of employers. Because the data is gathered using the same methodology in every state, it can be used to compare wages for different occupations across geographic areas. Table 1 illustrates the wages paid to legislators in select states from the 2015 OES data. The full list of all 50 states is included in the attached spreadsheet. The definition of legislators includes those elected at the local, tribal, state, and national level to enact laws. In other words, this level of pay also includes wages paid to county or city commissioners, tribal elected leaders, or others who are elected by their constituency and paid by a Montana employer. The

OES data suggests that legislators in Montana earn roughly \$34,780 per year. This calculation of annual wages assumes that the position is full-time, and is calculated by taking the hourly salary and multiplying times 2,080. According to the OES, legislators in Montana have the 14<sup>th</sup> highest wage level among all states. In comparison, pay levels for all Montana employees rank 45<sup>th</sup> using this data source. However, because this data includes other elected leaders in the data, the alternative data sources available through DOA may provide a more specific estimate of state legislator pay.

### Benefits:

Benefits are an important component to compensation. There is not a lot of data on the level of benefits provided by Montana employers. In general, higher paid employees are more likely to receive benefits than low-skilled workers, and full-time workers are more likely to receive benefits than temporary, seasonal, or part-time employees. Large businesses are more likely to pay benefits than smaller businesses. Certain industries are more likely to pay benefits, which typically is due to the types of employees hired or to a history of union involvement. In general, managerial government employees like legislators would be expected to receive a high level of benefits due to being a managerial employee and due to higher benefit levels in the government sector.

The BLS provides comprehensive information on the costs of benefits provided to workers in the Employer Costs for Employee Compensation survey (EC). The EC provides information on the average amount paid for employee compensation per hour, broken out by wage versus various benefits. For example, Table 2 illustrates the total costs to employer per labor hour for wages, benefits, and legally-required taxes and benefits (unemployment insurance and social security taxes), with a total compensation cost of \$33.94 in the first quarter of 2016. Additional historic data is provided in the attached spreadsheet to illustrate trends. This data suggest that benefits are roughly 31% of total compensation for U.S. employees, including paid leave and overtime as benefits. If paid leave and overtime are included with salary (like other data) instead of with benefits, roughly 21.5% of the compensation package is paid out in benefits.

<b>Table 2: U.S. Employer Costs paid Per Employee Hour, 2016Q1, Civilian Employees</b>	
Wage and Salary	\$23.25
Paid Leave Benefits	\$2.35
Overtime	\$0.26
Health Insurance	\$2.85
Other types of Insurance	\$0.15
Retirement Savings	\$1.74
Legally Required Benefits	\$2.55
Other benefits	\$0.79
<b>Cost of Compensation per Hour</b>	<b>\$33.94</b>
Source: Employer Costs for Employee Compensation, Bureau of Labor Statistics	

Government employees and management employees typically receive higher benefits than other types of workers. According to the EC, management employees in state and local government earned about \$54.34 per hour, including \$18.39 paid as benefits (with paid leave included as a benefit). For these workers, benefits comprise roughly 33% of total compensation. More information on state and local government employees is provided in the attached spreadsheet. However, this data does not include a further breakdown of benefits.

The EC data is only available at the federal level, not for Montana. Many states conduct their own benefits level surveys, but Montana does not. Data on benefits in Montana must be generated using some assumptions from multiple data sources.

The Bureau of Economic Analysis (BEA) reports employee benefits as a general estimate across all employees in Montana. The BEA estimate simply breaks out the employer contributions to retirement and health (and other) insurance, and the employer contribution for social insurance on behalf of the employee (such as unemployment insurance and social security taxes). The BEA suggests that Montana workers received \$19 billion in wages, and \$4.8 billion in supplements to wages and salaries. Paid leave benefits are included in the wages and salaries, as there is no way for the BEA to know whether the wage earned was due to paid leave or due to worked time. Using the BEA data for 2015, benefits comprise 20.2% of the total compensation package in Montana. If this fraction was true for legislators, the estimated total compensation for legislators in Montana would be \$43,584. Again, this would not include the benefits from paid leave.

The nonprofit organization Public Plans Data ([www.publicplansdata.org](http://www.publicplansdata.org)) provides data on the contribution rates for pension plans covering state employees. This data identified 45 different public pension or retirement plans that targeted state employees in 2015 (municipal and teacher plans removed). Based on this information, the employer contribution to the Montana PERS plan is roughly 8.7% of payroll, which is lower than the 14% average calculated from the data. However, this data is not specific to legislators, and may not be completely accurate. The full data can be downloaded from the website, with selected variables included in the attached spreadsheet.

The Kaiser Foundation ([kff.org](http://kff.org)) includes information on the average employer contribution for health insurance in Montana compared to other states, with Montana having the 11<sup>th</sup> highest employer contribution for single coverage at \$4,855 annually. The employee contribution ranks 47<sup>th</sup> at \$1,024. Additional information on the costs of family coverage are provided at ([www.kff.org/statedata/](http://www.kff.org/statedata/)).

The Montana Department of Labor and Industry utilized grant funding to determine the level of paid family leave provision in Montana in 2015. Roughly 45% of businesses provided some type of paid leave that could be used for paid parental leave, with the leave typically provided as paid sick leave or general paid time off. Only 5% of Montana businesses provided paid leave specifically for family or parental leave to all employees. This survey does not provide complete information on the number of paid leave hours provided by Montana employers.

Other data also exists on the provision of benefits in Montana, but like the ones mentioned above, the information is not perfect and requires some assumptions before being applied to Montana workers.

### **Wage Escalation:**

Finally, you asked for advice on the appropriate way to adjust wages annually for cost of living or market pressures, or wage escalation. There are three basic rationales commonly given for an annual (or biennial) adjustment to wages. First, many employers wish the wage levels paid to remain constant with inflation, allowing their workers to remain at a steady standard of living. Second, many employers wish to set a standard increase in wages each year to compensate employees for increased productivity from one more year of experience. Particularly in the first five years after starting a job, workers gain on-the-job experience and competencies that translate into higher productivity. Third, some employers are concerned about retaining talent, and want to adjust their worker's salaries to keep up with market rates, finding it less expensive to automatically adjust wages annually rather than replacing workers.

Employers may have some or all of these motivations for a biennial pay increase, and the appropriate annual adjustment method may differ depending on the motivation. For example, if the motivation is retaining talent, the appropriate method is to adjust salaries using market wage rates, such as those published by the OES. Different employers devise different schemes to meet their needs, many using diverse data sets.

However, the most common method of wage escalation is to adjust salaries for inflation, thus keeping worker's salaries at the same level as the prior year. Many employers prefer this method because of its simplicity and because it separates the issue of annual inflation adjustments from performance-based pay. Adjusting for inflation keeps workers at the same real wage level as the prior year, allowing workers to maintain the same standard of living. Promotions or bonuses based on performance can be awarded as a separate process.

Adopting the concept of adjusting workers' wages for inflation also makes the selection of an appropriate index more straightforward. If the intent to keep worker's wages constant for inflation is the desired goal, the appropriate wage escalation index would be an inflation measure. The most commonly used index is the Current Price Index for Urban Consumers, or the CPI-U. The CPI-U is reported monthly by the Montana Department of Labor and Industry and the Bureau of Labor Statistics, and also the index used to adjust Montana's minimum wage each year. I recommend CPI-U to businesses because using a different inflation measure often leads to confusion when the media reports the CPI-U.

How to Calculate an Wage Increase Using the CPI-U	
Inflation Level during Last Session, May 2014	237.9
Inflation Level during May 2016	240.236
Increase in Inflation over 2 Years	0.98%
Wage, 2014	\$10
Wage times Inflation, or Inflation Adjustment	\$0.10
New Wage, 2016, Adjusted for Inflation	\$10.10

It is also important to specifically state the time period for the data that will be used. For example, Montana’s minimum wage is inflated using the CPI-U from the month of August. Annual figures are likely the most straightforward adjustment, but the timing of the legislative session may not allow for the most recent year of CPI-U data to be finalized before the session starts. The legislature may prefer to use annual figures from the previous year

or a particular month instead.

For example, the 2017 Legislature will meet in January 2017. The final 2016 CPI-U estimates will not yet be available. However, the data for the first half of 2016 will be available. The wage rate for legislators could be increased using the increase in inflation from the first half of 2014 to the first half of 2016.

Above is an example of how to adjust a wage rate for a change in inflation using the CPI-U. The example uses the CPI-U index for the month of May. The inflation index increased from 237.9 to 240.236 over the two years since the last legislative session, or a 0.98% increase. Multiplying the wage rate time 1 + 0.98% results in an inflation-adjusted wage of \$10.10.

Inflation has been quite low in recent years, so it will not increase wage rates a large amount, but it will keep those wage rates at the same purchasing power as previous years. In fact, using an inflation index for wage escalation does not guarantee an increase in the wage rates. It only guarantees steady purchasing power for that wage. It should also be noted that giving a cost-of-living adjustment based on inflation is not a raise. The workers’ wages remain at the same level as the prior year after accommodating for inflation.

The last table provided in this memo illustrates the increase in inflation compared to wage increases in Montana to illustrate the historic patterns of inflation versus wage increases. Workers experience real wage increases when wages increase faster than the rate of inflation, allowing them to buy more goods and services with their wage than in the prior year and achieve a higher standard of living.

As mentioned above, increasing wages at the rate of inflation does not allow workers to achieve a higher standard of living – it keeps workers at the same level they were at in the previous period.

Montana Wage Increases Compared to Inflation Increase, 2010-2015				
	Wage Increases			Inflation Increases
	All Montana Workers	Private Workers	State Government (Including University Employees)	
2010	2.5%	3.1%	-3.7%	1.6%
2011	3.4%	3.8%	0.7%	3.2%
2012	3.6%	4.2%	2.1%	2.1%
2013	1.3%	1.5%	2.0%	1.5%
2014	3.5%	3.8%	2.9%	1.6%
2015	3.0%	3.0%	4.0%	0.1%
Compounding Average Growth Rate, 2010-2015	3.0%	3.3%	2.3%	1.7%