

NCS Reviews the Effectiveness of Variable Pay Collection

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BLS periodically conducts internal testing on the NCS to measure whether its program procedures accurately reflect current compensation practices, including the use of variable pay plans; the results of one such test are presented here.

Variable pay has become an integral part of compensation programs in competitive labor markets. According to a leading professional organization, WorldatWork, variable pay compensation is "based on individual, group, or organizational performance rather than rewards based on time spent on the job or the value of the job."¹ The goal of the integrated [National Compensation Survey \(NCS\)](#)² program, which comprises the Employment Cost Index (ECI), Occupational Compensation Survey (OCS), and the Employee Benefits Survey (EBS), is to provide data users with detailed information on all key compensation components, including variable pay.

BLS periodically conducts quality control tests on the NCS to determine whether its survey procedures accurately capture and measure changing compensation practices. This article focuses on one such test, conducted on a sample of establishments from the ECI, to determine NCS effectiveness in collecting data for variable pay plans and provisions.

The ECI currently tracks variable pay components under three main categories: (1) *production payments*, which include sales commissions and piece-rate payments and are based on formulas linked to production, (2) *wage add-on payments*, which include payments connected to individual skills, the cost of living, or conditions of specific jobs, and (3) *nonproduction bonuses*, which include year-end and suggestion bonuses and are not directly related (by formula) to individual employee production. (See [Definitions of NCS Variable Pay Terms Used in the Test.](#)) For NCS purposes, production payments are included in the calculation of wages and salaries, and are not currently reported separately. Also included in wages and salaries are certain add-on payments, such as cost of living adjustments (COLAs) and hazard pay. Nonproduction bonuses, by contrast, are considered part of the benefits component of compensation; separate employer cost data are calculate. According to BLS, average employer costs for nonproduction bonus benefits were 27 cents per hour in September 2002, or 1.2 percent of total compensation costs.³

Test Procedures

BLS performs various levels of internal review on all NCS data. Senior economists review establishment data for accuracy, and internal systems are designed with edits to screen wage and benefit values and relationships. In addition, NCS selects a small percentage of survey establishments from the ECI sample to recontact and verify wage and benefit information. These are the establishments that made up the sample for the variable pay test.

NCS data analysts recontact approximately 100 randomly selected ECI update establishments each quarter, and review occupational wage rates and selected benefits (such as health insurance, vacations, and defined contribution plans) for each sampled organization. The analysts note any differences in establishment and contact information, wages, and benefit provisions⁴ and benefit costs. Production payments, add-on payments, and nonproduction bonus plans were verified in every ECI establishment selected for recontact during this test.

For variable pay test purposes, data analysts reviewed the entire checklist of variable pay provisions with respondents to verify data collected and identify missed plans or data discrepancies. Plan discrepancies were documented during this process, and additional information was then requested on updated or current plan provisions and costs, if available.

Sample Design

The NCS variable pay test was conducted over a four-quarter period, from June 1999 to March 2000. For the four quarters of the variable pay study, target sample sizes of 100, 150, 100, and 200 updated establishment schedules for ECI were set.⁵ The expected number of quarterly recontacts was based on staffing and workload levels. An establishment was eligible to be sampled only once for recontact over the four quarters. Overall, 411 establishments were recontacted for the variable pay test. The sample included private industry and State and local governments. It was not a complete representation of these establishments, however, because certain types of corporate reporting units were excluded from the test.

The sample was selected to yield information for BLS internal quality control processes, not to yield estimates of the incidence of variable pay plans in the economy. Because of the small size of the sample, data presented in this article should be interpreted only as rough indicators of the prevalence of variable pay plans.

Variable Pay Test Results

Overall, 47 percent of all weighted establishments had some type of variable pay plan. Nonproduction bonuses, such as year-end and performance awards, represented approximately 83 percent of all variable pay plans found.

Selected establishments with variable pay plans were further divided into groupings by plan provision type. Table 1 presents variable pay plan provision incidence levels (by range) for establishments with variable pay plans.

The majority of production or add-on wage plans came from the longevity pay provision. Christmas and other year-end bonuses and attendance bonuses showed the highest incidence levels for defined nonproduction bonus provisions. More than 30 percent of all ECI test establishments with variable pay plans included year-end or Christmas bonuses, and more than 15 percent included attendance and other bonuses.

Other nonproduction bonuses were awards not included in one of the specified types of plans. The "other" category showed wide variation in the types of plans listed. Examples included hiring and referral bonuses (which were formally added to ECI collection in June 2000), distinguished employee awards, job evaluation bonuses, and customer service awards.⁶

During the recontact test, some plans were found to be missing or have discrepancies. Missing plans and discrepancies occurred almost always during quarterly update periods, as opposed to initial establishment data collection. In this case, either the respondent did not provide data on the new variable pay plan, or the field economist didn't properly capture the new or changed plan. Additional training on production and nonproduction bonus collection will help identify and confirm all types of variable pay plans.

Variable Pay Collection Accuracy And Impact

For establishments with variable pay plans, the data show that field economists accurately collected these plans the vast majority of the time. Spot or instant awards were the type of plan most often missed. Due to limited cost information obtained during recontact and the small sample size, the overall impact of any missing or incorrect plans can only be approximated. However, cost information that was captured on incorrect and missing pay plans showed that they involved mostly small bonuses or minor plan changes.

Collection of cost data was limited, primarily for two reasons: (1) establishments would not or could not provide cost information at the time of recontact, and (2) data analysts did not want to jeopardize future cooperation by pressing for cost data. NCS is a voluntary survey and data analysts are careful not to overburden establishment personnel with requests for additional information.

Recommendations

This study resulted in the following four recommendations to improve the overall quality of variable pay collection in the future:

1. Include a checklist of commonly identified production payments, wage add-ons, and nonproduction bonus provisions (similar to the list used in this test). Field economists review this listing with respondents during the quarterly data collection updates. This reduces the incidence of missed plans and significantly improves our ability to capture recently implemented variable pay plans.
2. Enhance computer system capabilities to help capture and document a variety of new and existing variable pay plans because compensation practices are changing. Future variable pay research may uncover additional provisions that should be collected.
3. Expand NCS collection and training documentation to include definitions of spot awards and "other" plan type categories.
4. Expand coverage of variable pay elements during field economist training.

The implementation of these recommendations has helped improve the quality of NCS variable pay collection and prepare the survey to track developments in this area of employee compensation.

Definitions Of NCS Variable Pay Terms Used In The Test

Production payments: Payments that are directly linked to an employee's (or group of employees') production or output. Payments are based on a set formula and linked to production or to completing work in a certain amount of time.

Types Of Production Payments

(Sales) incentives: Formula-driven pay plans that are designed to reward the accomplishment of specific results. Awards usually are tied to expected results identified at the beginning of the performance cycle. Incentive plans are forward looking; in contrast to nonproduction bonuses, they are not discretionary.

Piece rate: A method of wage payment by which earnings are based on a constant rate of pay for each unit of output.

Group incentive (production bonus): Payment of incentive earnings based on the formula output of a group (team, department) of workers rather than on the output of the individual worker.

Wage add-on payments: Additions to base pay to compensate employee for special skills, risks, or other circumstances.

Types Of Wage Add-on Payments

Pay for special skills or duties: Extra pay or bonus paid to employees for additional skills they possess (the ability to speak a second language, for example) that are not required of all employees but which may supplement required skills.

Longevity pay: A specified increase in an employee's hourly pay rate, lump-sum payment, or bonus of some kind (for example, government savings bonds or an add-on to severance pay) paid to employees based upon their length of service.

Hazard pay: Extra payment to an individual or a group for working under dangerous or undesirable conditions.

Location pay: Extra pay for living in a high cost or undesirable area.

Cost-of-living adjustment (COLA): An across-the-board wage and salary increase or supplemental payment designed to bring pay in line with increases in the cost of living. COLAs are sometimes included in union contracts and generally are tied to one of the [Consumer Price Indexes \(CPIs\)](#) published by the Bureau of Labor Statistics.

Nonproduction bonus: Cash sums given to employees by the employer. The payment is not directly related to the productivity of the individual employee.

Types Of Nonproduction Bonuses

Cash profit sharing: Payment to employees in recognition of the employee's contribution to company profitability. Payments may vary by length of service.

Performance bonus: An after-the-fact discretionary payment based on the performance of an individual. Payments may be made in cash, shares, share options or other items of value.

Christmas/year-end bonus: A payment to employees near the end of the year as a sign of appreciation for working hard throughout the year.

Group incentive (nonproduction bonus): Payment of incentive earnings based on the (nonformula) output of a group (team, department) of workers rather than the output of the individual worker.

In-lieu benefit payments: Payments to employees in lieu of the employer providing a particular benefit, such as health care.

Attendance bonus: A payment to employees who achieve specific attendance goals.

Suggestion bonus: A payment to employees whose innovative suggestions to create better work processes and improve establishment efficiency have been considered or implemented.

Safety bonus: A payment to employees for maintaining a high level of safety in the workplace.

Spot awards: A form of nonproduction bonus paid to employees as an instant award.

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Notes

¹ WorldatWork, *The Glossary of Compensation and Benefit Terms*, 5th ed. (American Compensation Association, 1999); the address of the WorldatWork website is <http://www.worldatwork.org/>.

² The NCS covers civilian workers in private industry establishments and State and local governments in the 50 States and the District of Columbia. Federal Government, agriculture, and private households are excluded from coverage. This survey covers establishments with one or more employees.

³ "Employer Costs for Employee Compensation: September 2002," USDL 02-674 (Bureau of Labor Statistics, Dec. 11, 2002), table 1; figures are for average nonproduction bonus employer costs for employee compensation for civilian workers in private industry and State and local government in the United States.

⁴ A provision is defined for test purposes as a type of variable pay plan with similar terms and characteristics.

⁵ The ECI sample is the population for the Variable Pay Study. The sampling weights were the reciprocal of the probability of selection in the quarter selected. Nonresponse adjustments were made at the establishment level only. A nonresponse adjustment factor was calculated based on the reciprocal of the response rate in each 2-digit SIC x size class cell. Results were benchmarked to the March 2000 sample selection of 200 establishments.

⁶ For further information on ECI inclusions, see Thomas Moehrl, "The Cost and Incidence of Referral, Hiring, and Retention Bonuses," *Compensation and Working Conditions*, Winter 2000, pp. 37-42.

Table 1. Percent of establishments with variable pay plans by range and type (1)

Variable pay type/provision	Less than 5 percent	5-14 percent	15-29 percent	30-50 percent
Production payments				
Sales incentive/commissions	X			
Piece rate	X			
Group incentive	X			
Wage add-ons				
Pay for special skills or duties	X			
Longevity pay		X		
Hazard pay	X			
Location pay	X			
COLA	X			
Non-production bonus				
Cash profit sharing		X		
Performance bonus		X		
Christmas/year end bonus				X
Group incentive	X			
In-lieu benefit payments		X		
Attendance bonus			X	
Suggestion bonus	X			
Safety bonus		X		
Spot awards		X		
Other			X	

Footnotes:
 (1) Table represents weighted data.