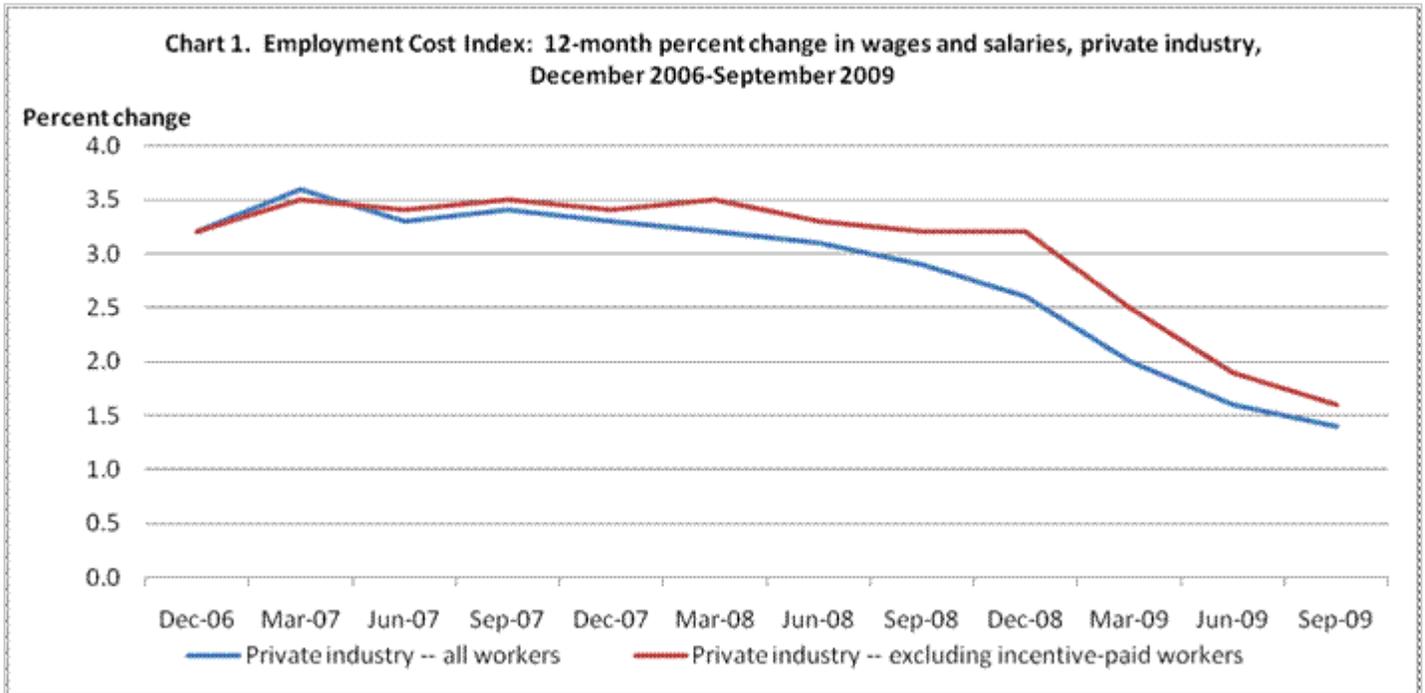


# The Effect of Incentive Pay on Rates of Change in Wages and Salaries

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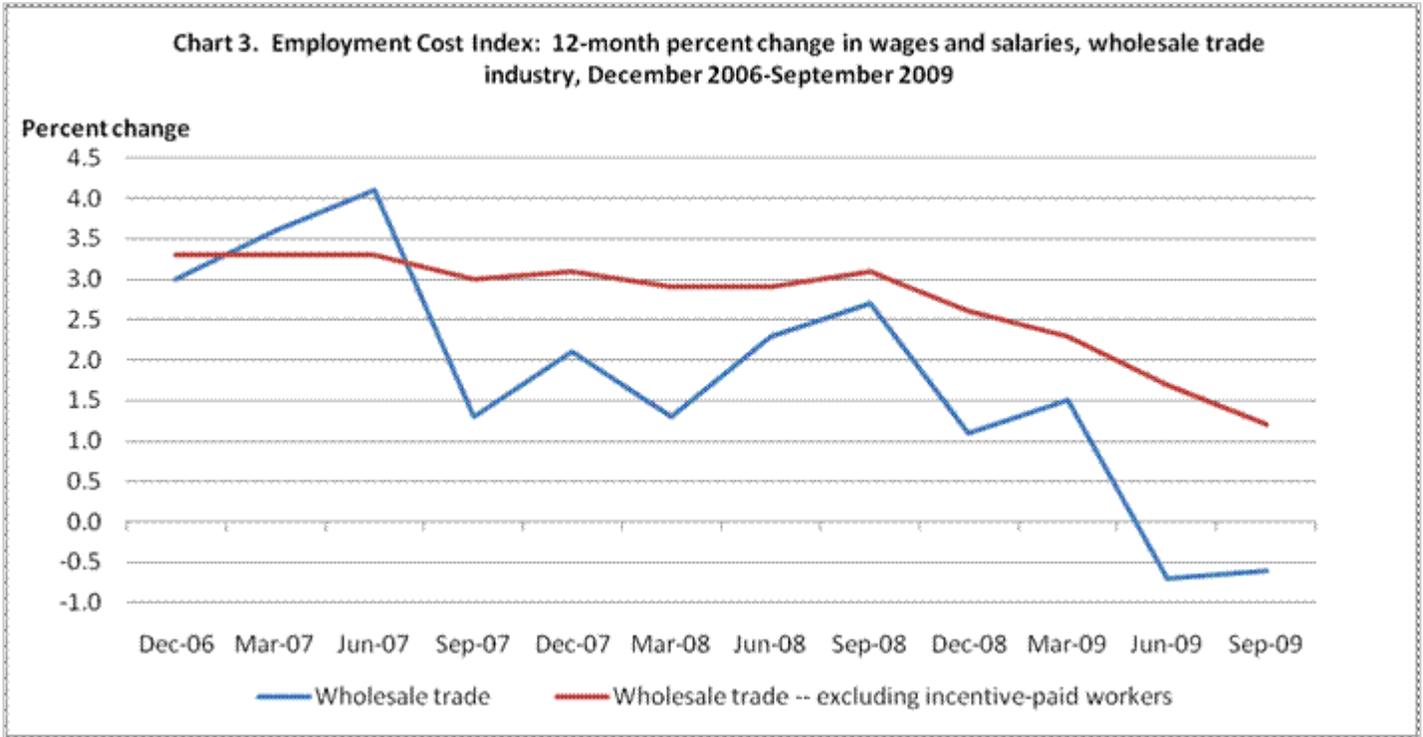
Originally Posted: November 24, 2009



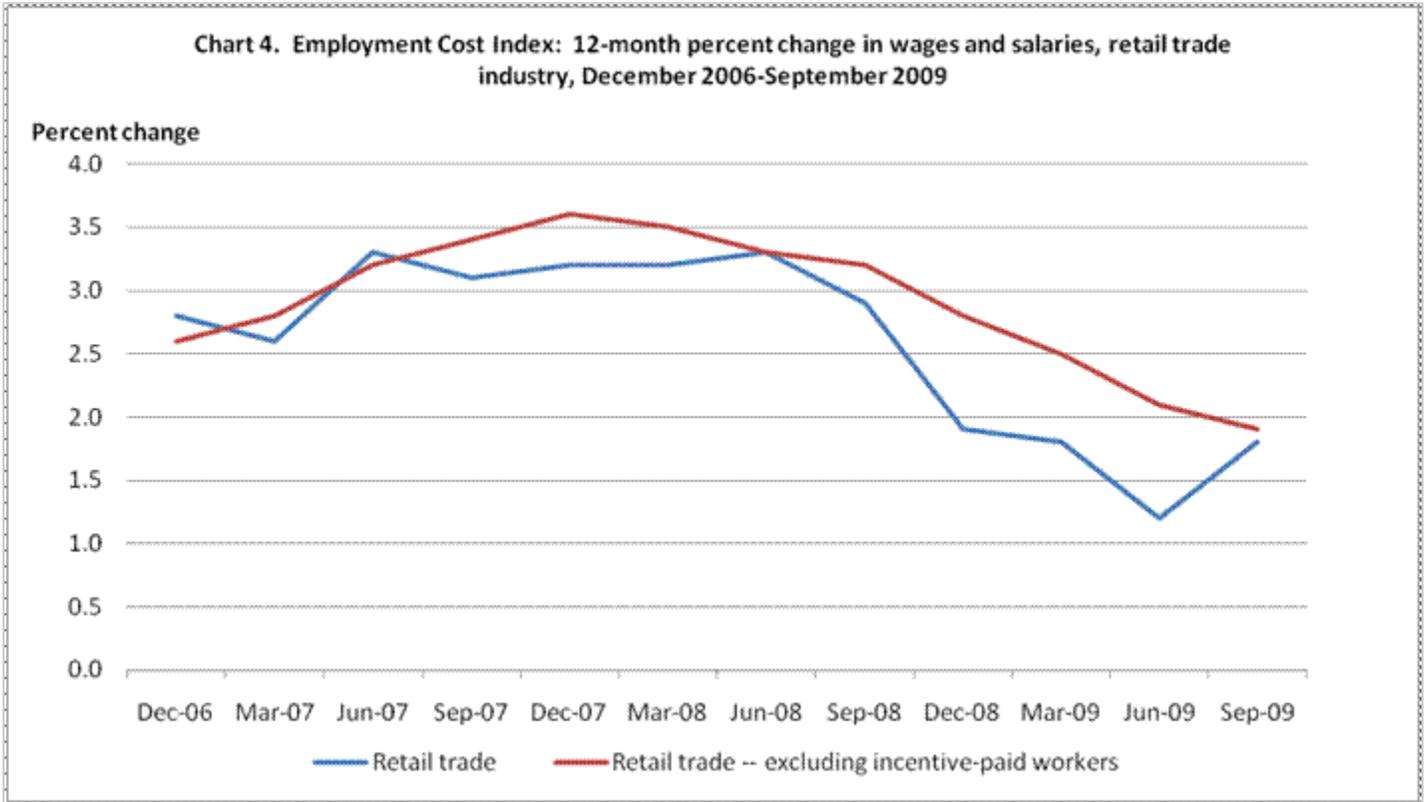
- As chart 1 shows, following steady increases of approximately 3 percent per year from December 2006 through June 2008, private industry wage and salary increases have slowed; the annual rate of change in recent quarters has been around 2 percent or below.
- This overall trend can mask the effect of incentive-paid workers, who make up about 5 percent of the private workforce, as measured by the BLS Employment Cost Index (ECI).
- Incentive-paid workers are those who receive some portion of their earnings based on sales or output, rather than a unit of time such as an hourly rate or monthly salary. Examples of incentive-paid work include piece-rate systems found in manufacturing environments and commissions paid to certain sales workers. Because such workers represent a small proportion of total employment, it is difficult to track this volatile segment of the workforce. However, by comparing all workers with those who are not paid by incentive, some trends can be identified.
- In the private sector, annual increases for non-incentive-paid workers (also referred to here as time-based workers) have typically been estimated at between 0.2 and 0.6 percentage points more than annual increases for all workers.
- Scratch below the surface, however, and different patterns are identified for certain occupation and industry groups--especially those that have been affected by the recession.



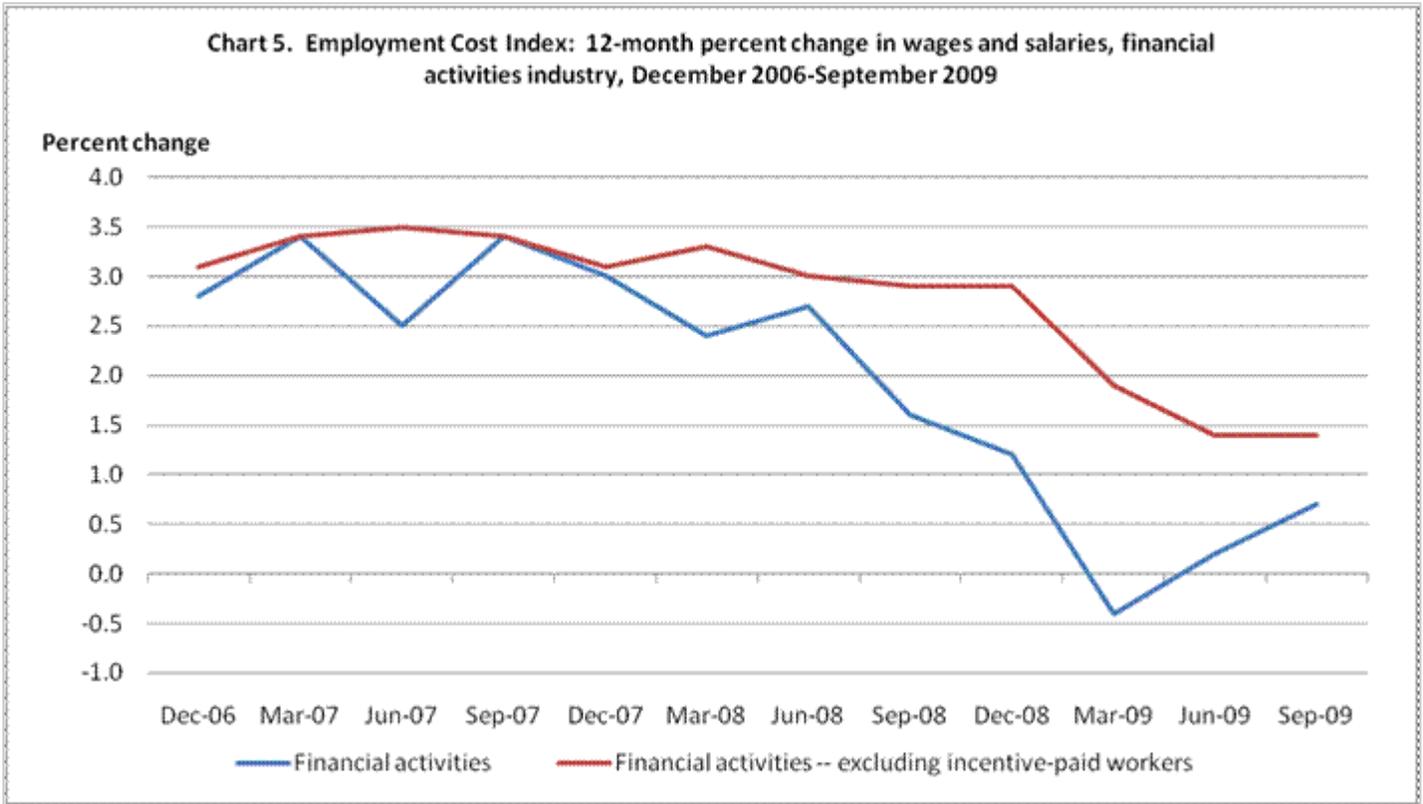
- Incentive workers make up nearly 20 percent of the sales worker category; the influence of slow wage growth (and even wage declines) for these workers can be seen in the gap in this chart.
- Chart 2 shows that the published estimates of wage increase for all sales workers and time-based sales workers were similar in late 2006 and early 2007; since then, these series have begun to diverge. Beginning with data for December 2008, the gap between the series is statistically significant.
- Even more striking, the published estimates of the change in wages and salaries for all sales workers have been negative for each of the three quarters in 2009, reflecting the influence of incentive-paid workers.



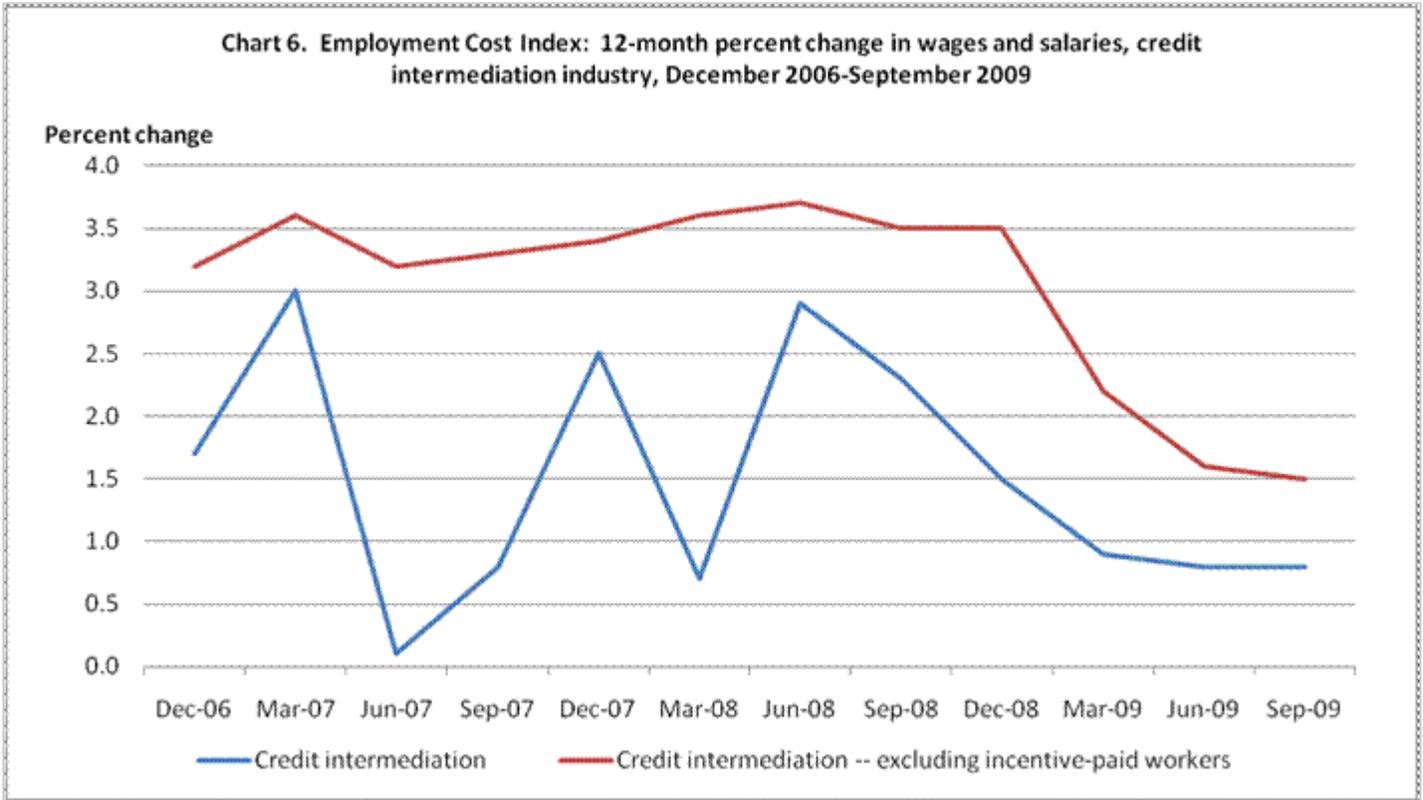
- What is most noteworthy about chart 3, which shows the changes in wages and salaries for workers in the wholesale trade industry, is the variation in the published estimates for all such workers from quarter to quarter.
- Those not receiving incentive pay have seen relatively stable wage growth, with declining rates of increase in 2009. In contrast, all wholesale trade workers--influenced by those receiving incentives--saw an increase in the published estimate of 2.7 percent in September 2008 and a decrease of 0.6 percent in September 2009. Incentive-paid workers make up a little more than 10 percent of the employees in this industry.



- As chart 4 shows, the retail trade industry shows little variation between time-based workers and all workers.
- The difference in wage growth for these two series has not been statistically significant over the period shown.
- The wage growth shown in each of these series in each quarter of 2009 has moderated compared with that of a year earlier.
- Less than 10 percent of retail trade workers are paid by incentive.



- The financial activities industry includes two broad categories: finance (such as banks, consumer lending, brokerages, insurance carriers, and related activities) and real estate (such as sales, leasing, and property management).
- Incentive-paid workers account for about 13 percent of the employment in this industry.
- As can be seen in chart 5, the series that includes incentive workers shows a clear decline in wage increases from September 2008 to June 2009.
- The gap between the series was most pronounced in March 2009; more recent differences between the series are not statistically significant.



- Credit intermediation enterprises are those that lend funds raised from depositors; they include banks, credit unions, and mortgage companies. Credit intermediation is a subset of the financial activities industry, shown in chart 5.
- Of the industry series presented here, credit intermediation includes the largest proportion of incentive-paid workers--nearly 20 percent.
- As chart 6 indicates, the published estimates of annual percent change in wages and salaries for all workers in this industry has varied from 0.1 percent to 3.0 percent over the past 3 years; however, such changes have been about the same over the past three quarters.
- While the chart suggests some large gaps between the series over the past few years, the small sample size often results in such differences not being statistically significant. The gap in the series has been steady over the past three quarters.



- Although real estate sales and prices have changed dramatically over the past few years, chart 7 shows that these series--which also include leasing, property management and appraisal businesses--do not show a large gap between all workers and those without incentive pay.
- It is important to note that the Employment Cost Index does not include self-employed individuals; thus, many individuals involved in real estate sales may not be included in the data presented here. Incentive-paid workers make up about 6 percent of those in the real estate industry.
- The series tend to be consistent; in fact, the annual rates of change in wages and salaries between the two series are generally not statistically significant. The published estimates for both series were 0.9 percent in September 2009. In September 2007, the published estimate was 2.8 percent for all workers in the real estate industry and 3.2 percent for time-based workers in the real estate industry.

The Employment Cost Index (ECI) is a measure of the change in the cost of labor, free from the influence of employment shifts among occupations and industries. Wages and salaries are defined as the hourly straight-time wage rate or, for workers not paid on an hourly basis, straight-time earnings divided by the corresponding hours. Straight-time wage and salary rates are total earnings before payroll deductions, excluding premium pay for overtime and for work on weekends and holidays, shift differentials, and nonproduction bonuses. Production bonuses, incentive earnings, commission payments, and cost-of-living adjustments are included in straight-time wage and salary rates. More information about the BLS [Employment Cost Index](http://www.bls.gov/ncs/ect/) is available at <http://www.bls.gov/ncs/ect/>. For a discussion of incentive pay in the Employment Cost Index, see Anthony J. Barkume and Thomas G. Moehrle, "The Role of Incentive Pay in the Volatility of the Employment Cost Index," *Compensation and Working Conditions*, Summer 2001, pp. 13-18, available at <http://www.bls.gov/opub/cwc/archive/summer2001art2.pdf>.

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**Data for Chart 1. Employment Cost Index: 12-month percent change in wages and salaries, private industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Private industry -- all workers	3.2	3.6	3.3	3.4	3.3	3.2	3.1	2.9	2.6	2	1.6	1.4
Private industry -- excluding incentive-paid workers	3.2	3.5	3.4	3.5	3.4	3.5	3.3	3.2	3.2	2.5	1.9	1.6

**Data for chart 2. Employment Cost Index: 12-month percent change in wages and salaries, sales and related workers, private industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Sales and related workers	2.6	3	2.7	2.4	2.8	2.4	2.5	1.9	0.2	-0.9	-1.8	-0.7
Sales and related workers -- excluding incentive-paid workers	2.8	2.8	2.9	3.4	3.7	4.4	4.1	3.8	3.6	2.1	1.6	1.8

**Data for chart 3. Employment Cost Index: 12-month percent change in wages and salaries, wholesale trade industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Wholesale trade	3	3.6	4.1	1.3	2.1	1.3	2.3	2.7	1.1	1.5	-0.7	-0.6
Wholesale trade -- excluding incentive-paid workers	3.3	3.3	3.3	3	3.1	2.9	2.9	3.1	2.6	2.3	1.7	1.2

**Data for chart 4. Employment Cost Index: 12-month percent change in wages and salaries, retail trade industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Retail trade	2.8	2.6	3.3	3.1	3.2	3.2	3.3	2.9	1.9	1.8	1.2	1.8
Retail trade -- excluding incentive-paid workers	2.6	2.8	3.2	3.4	3.6	3.5	3.3	3.2	2.8	2.5	2.1	1.9

**Data for chart 5. Employment Cost Index: 12-month percent change in wages and salaries, financial activities industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Financial activities	2.8	3.4	2.5	3.4	3	2.4	2.7	1.6	1.2	-0.4	0.2	0.7
Financial activities -- excluding incentive-paid workers	3.1	3.4	3.5	3.4	3.1	3.3	3	2.9	2.9	1.9	1.4	1.4

**Data for chart 6. Employment Cost Index: 12-month percent change in wages and salaries, credit intermediation industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
<b>Credit intermediation</b>	1.7	3	0.1	0.8	2.5	0.7	2.9	2.3	1.5	0.9	0.8	0.8
<b>Credit intermediation -- excluding incentive-paid workers</b>	3.2	3.6	3.2	3.3	3.4	3.6	3.7	3.5	3.5	2.2	1.6	1.5

**Data for chart 7. Employment Cost Index: 12-month percent change in wages and salaries, real estate industry, December 2006-September 2009**

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
<b>Real estate</b>	1.4	1.8	2.5	2.8	1.7	2.9	2.2	1.6	2.5	1.1	1.1	0.9
<b>Real estate -- excluding incentive-paid workers</b>	3	3.4	3.6	3.2	2.7	3	2.5	2.7	3	1.9	1.3	0.9

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