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The Stark Gap Between Public and Private Employee Benefits

Analysis by Charles Steindel, Ph.D. for GSI

Worker pay and benefits is the main driver of state and local government spending and taxes. A recent report by the U.S. Bureau of Labor Statistics (BLS) lays bare some dramatic differences between the public and private sectors. In particular, government costs for pensions and medical benefits far exceed the private sector. What BLS finds for the nation as a whole surely holds even more so for New Jersey.

The BLS numbers are in a regular quarterly report, [“Employer Expenses for Employee Compensation”](#). These are estimates of the actual, dollar cost to employers of an hour’s labor by a worker. The (national) data includes figures for the private sector and for state and local government workers.

In March of this year, BLS finds that private sector employers paid an average of \$34.49 per hour worked, adding together both wages and benefits. State and local governments paid about 50 percent more--\$50.89 per hour. If an employee is paid for 2,000 hours a year, that is more than \$100,000.

There is a noticeable difference between salaries in the public and private sectors. Private workers earn an average of \$24.17 an hour in pay; public workers \$31.75. Much of that difference surely reflects the differences between public and private jobs. Many public sector jobs require more education than a typical private sector job. After all, the most common public sector job is teaching, where a bachelor’s degree is a minimum standard.

The real distinction is on the benefit side. All benefits—pension payments, medical insurance, unemployment insurance, etc.—in the private sector averaged \$10.33 an hour. Average public sector benefits were \$19.14 an hour, \$8.81 more, or nearly twice as high.

The table shows the difference is essentially due to health insurance and retirement contributions:

95% of the \$8.81 Difference in Public and Private Benefit Costs is Attributable to Pension and Health Benefits

	Public Sector	Private Sector	Public Private Difference
Defined Benefit Pension Contribution	\$5.57	\$.054	\$5.03
Health Insurance	\$5.90	\$2.60	\$3.30
Sum	\$11.47	\$3.14	\$8.33

In short, virtually all the difference between public and private benefit costs—and about half the difference in overall compensation costs—is due to these two categories.

That’s the national situation. What about New Jersey’s?

Last year, state workers (including employees of public colleges and universities, and NJ Transit) had average pay of \$75,706, while local government workers averaged \$63,524. New Jersey private sector worker pay averaged \$65,330 (the pay numbers come from BLS’s “QCEW” database). The salary gap between private and public sector workers in New Jersey is somewhat narrower than is typical; alternatively, New Jersey has a lot of good-paying private jobs.

Benefits appear to be quite another story.

\$5.90 as the national average employer cost for medical insurance would be equal to about \$12,000 a year. The cost to the employers of a typical New Jersey public worker plan is much higher: it’s reasonable to estimate that New Jersey government employers spend in the neighborhood of \$20,000 a year per worker (the specific amount varies on the plan selected and the fraction of the cost paid by the worker). That cost would be roughly \$10 an hour, or more—sharply higher than the national figure.

The national figure of \$5.57 an hour for employer contributions to retirement benefits translates to about \$11,000 a year per worker. In Fiscal Year 2019 New Jersey state and local governments probably contributed about \$5 billion to the pension funds (The exact amount will appear in the financial report of the system, which will not be out for some months. The total includes the local share, so it’s larger than the usual figure reported for the state contribution). With about 450,000 state and local employees in the defined benefit plans, that’s equal to roughly \$11,000 per covered worker. So last year New Jersey was spending around the national average on this item, but that was when the state government was only making a payment of 60% of what was actuarially required. The amount will be higher in Fiscal 2020 as the state continues to boost spending to get to 100% of required contributions. Ultimately, to service our underfunded system, government contributions will be well above the national average—likely more than \$15,000 a year per worker. All in all, though, it’s likely that the cost of benefits of all sorts paid by New Jersey government employers currently exceeds the national average.

	Public Sector (US)	NJ Public (full pension payment @ 100%)	Private Sector (US)
Defined Benefit Pension Contribution	\$5.57/hr \$11,000/yr	\$7.50/hr \$15,000/yr	\$.054/hr \$1080/yr
Health Insurance	\$5.90/hr \$12,000/yr	\$10.00/hr \$20,000/yr	\$2.60/hr \$5,200/yr
Sum	\$11.47/hr \$22,000/yr	\$17.50/hr \$35,000/yr	\$8.33/hr \$16,600/yr

Public sector employees frequently argue that the generosity of their health and retirement benefits offsets lower pay. It may be the case that for some government jobs pay is lower than private sector equivalents (lawyers come to mind), though for many there are no clear private equivalents to draw on for easy comparison (uniformed positions are obvious examples). Whatever the merits of such pleas, the numbers point out that public sector benefits stick out strongly as a major cost borne by the taxpayers. A key to controlling the growth of New Jersey taxes will be containing the growth of public employee benefit costs.

About the Author

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