Firms with Benefits? Nonwage Compensation and Implications for Firms and Labor Markets

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Disclaimer

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Income Inequality

- Most studies of income inequality look just at cash wages
- But nonwage benefits now account for 1/3rd of total compensation in the US
- Nonwage benefits include:
  - Health insurance
  - Retirement benefits
  - Paid leave
  - …


LOOKING UNDER THE LAMPPOST
LOST YOUR KEYS?
YEAH, I LOST THEM OVER THERE BUT THE LIGHT'S BETTER HERE
sketchplanations

Motivation

Within-firm variation in benefits is likely to be limited

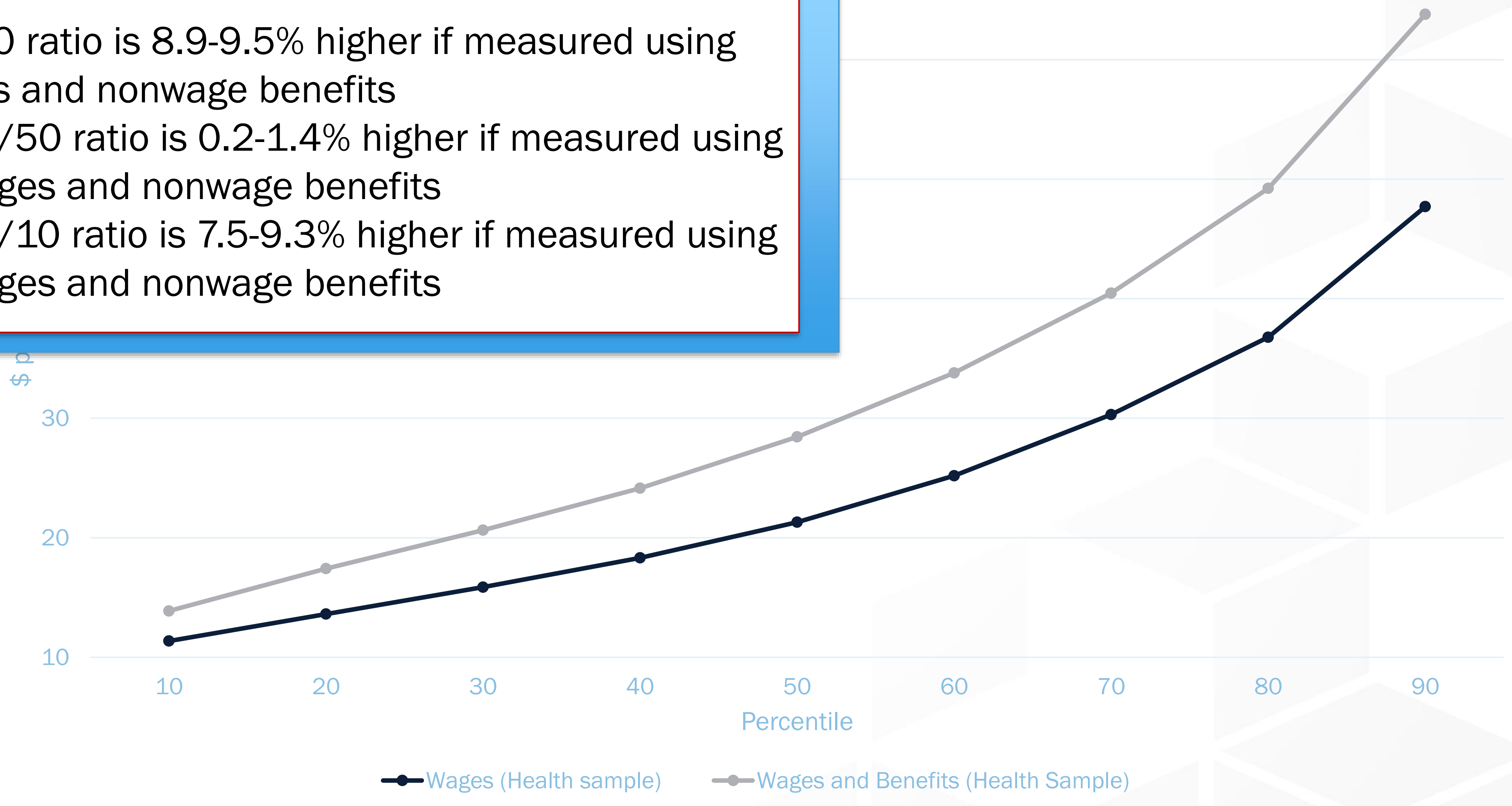
- Regulatory requirements can limit firms' ability to discriminate among employees in benefit offerings (ADA, ADEA, HIPAA, IRS tax deductibility rules)
- Individualizing health and retirement plans can raise administrative costs (diseconomies of scale)
- Discrimination in certain benefits, such as leave policies, could be particularly salient to employees who are concerned about fairness

This has implications for inequality and for the distribution of workers across firms.

Distribution of Wages and Total Compensation

90/10 ratio is 8.9-9.5% higher if measured using wages and nonwage benefits

- 90/50 ratio is 0.2-1.4% higher if measured using wages and nonwage benefits
- 50/10 ratio is 7.5-9.3% higher if measured using wages and nonwage benefits



Your Co-workers Matter for Your Nonwage Benefits

Assume: Differences in worker skills or geographies will result in differences in bargaining power and differences in nonwage benefits.

Holding job characteristics fixed, a worker's benefits will increase with the presence of highly-paid workers in unrelated divisions of the firm.

Implications for Firms

This firm effect in nonwage benefits has implications for human capital and firm value.

- High-benefit firms will be particularly attractive to low-skilled workers.
- High-benefit firms will demand fewer low-skilled workers given these higher costs.
- To the extent that firms cannot fully specialize in the human capital distribution, outsized benefits payments to low-skilled workers are likely to be associated with lower firm valuations.

Firms with more generous (instrumented) benefits have lower worker turnover, particularly among low wage workers.

Among low- (high-) wage workers, firms with more generous (instrumented) benefits are more likely to have worker exit (entry) rates that exceeds worker entry (exit) rates.

Firm benefit levels negatively correlate with firm value, particularly among firms that employ workers in hard-to-automate occupations.

Conclusion

- Nonwage benefits are an increasingly important part of total compensation in the US.
- We document lower within-firm variation and sharply higher between-firm variation in nonwage benefits, compared to wages.
- We find that (instrumented) benefits predict lower turnover.
- Turnover is impacted relatively more for low-wage workers, compared to high-wage workers.
- High-benefit firms appear to shed low-wage workers but are also appear to have lower values.