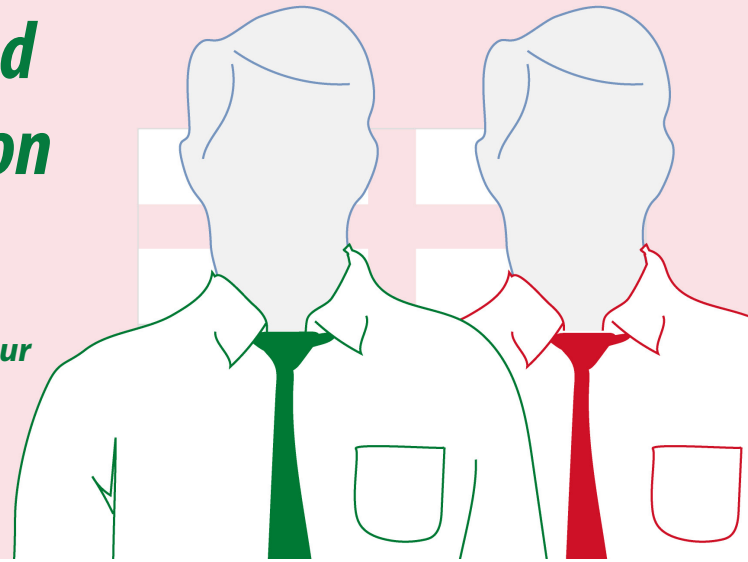


Comparing Government and Private Sector Compensation in Ontario, 2019

by Milagros Palacios, Nathaniel Li, and Steve Lafleur

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MAIN CONCLUSIONS

■ Using data on individual workers from January to December 2018, this report estimates the wage differential between the government and private sectors in Ontario. It also evaluates four non-wage benefits for which data are available to quantify compensation differences between the two sectors.

■ After controlling for factors like gender, age, marital status, education, tenure, size of firm, job permanence, immigrant status, industry, occupation, and full- or part-time status, the authors found that Ontario's government-sector workers (federal, provincial, and local) enjoyed a 10.3% wage premium, on average, over their private-sector counterparts in 2018. When unionization status is factored into the analysis, the wage premium for the government sector declines to 7.3%.

■ The available data on non-wage benefits suggest that the government sector enjoys an advantage over the private sector. For example, 82.7% of government workers in Ontario are covered by a registered pension plan, compared to 24.6% of private-sector workers. Of those covered by a registered pension plan, 94.8% of government workers enjoyed a defined benefit pension compared to 39.8% of private-sector workers.

■ In addition, government workers retire earlier than their private-sector counterparts—about 2.0 years on average—and are much less likely to lose their jobs (2.3% in the private sector compared to 0.5% in the public sector).

■ Moreover, full-time workers in the government sector lost more work time in 2018 for personal reasons (13.7 days on average) than their private-sector counterparts (7.8 days).

Introduction

Ontario faces significant fiscal challenges including a multi-billion dollar deficit and a high government debt burden. In order to begin solving them, the province will need to rein in program spending—a key source of the problem. In these efforts, an important area of spending to scrutinize is the compensation of government employees, which consumes around half of the government’s annual program spending.¹

With heightened interest in how wages and non-wage benefits in the government sector compare with those in the private sector, this report builds on previous research by the Fraser Institute comparing government- and private-sector compensation in Ontario (Lammam, Palacios, and Ren, 2017; Palacios, Jacques, Lammam, and Lafleur, 2018). Using data on individual workers from January to December of 2018, the report updates past estimates of the wage differential between government-sector workers in Ontario (including federal, provincial, and local government workers) and their private-sector counterparts. It also evaluates four non-wage benefits for which data are available in an attempt to quantify compensation differences between the two sectors.

At the outset, it is important to emphasize that wages are only one component of overall compensation. Various non-wage benefits such as pensions, health and dental insurance, vacation time, life and disability insurance, and so forth affect overall compensation levels. In this report, we are unable to estimate the overall total compensation premium in the government sector because there is a lack of individual data on

non-wage benefits. However, we do present the data that are available on non-wage benefits to shed some light on the differences between the benefits received in the government and private sectors.

The first section of this report provides some basic statistics on government and private sector employment in Ontario. The second presents the results of calculations used to determine the wage premium in the government sector. The third section compares available non-wage benefits to ascertain the likelihood that there is a premium for non-wage benefits in the government sector compared to the private sector.²

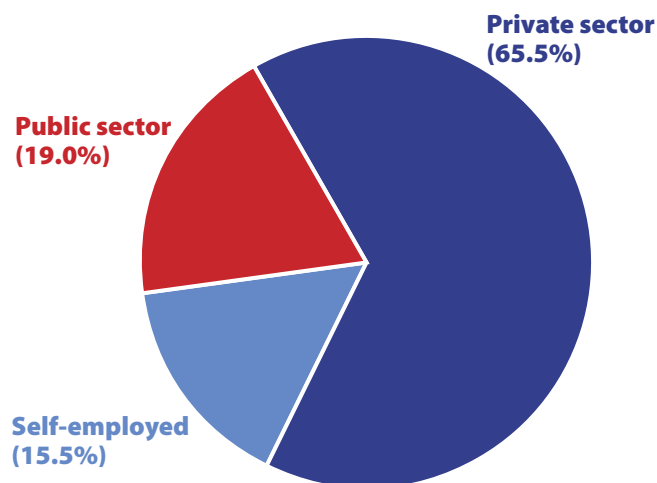
1. Comparing the size of the government and private sectors

Before analyzing compensation in the government and private sectors, it is useful to compare the two sectors in a more general way. **Figure 1** displays the composition of total employment in Ontario in 2018. In that year, about 1.4 million Ontarian workers, 19.0% of total employment, were employed in the public sector. This includes the federal, provincial, and local governments, as well as government agencies, crown corporations, and government-funded establishments such as schools (including universities) and

1 For an analysis of how compensation spending consumes provincial government resources in Ontario, see Lammam and MacIntyre, 2015.

2 Lammam, Palacios, Ren, and Clemens (2015b) provide possible solutions to the disparities in compensation between the government and private sectors. The options they propose include: (1) gathering better data on wage and non-wage benefits for government- and private-sector workers; (2) recognizing that total compensation is what matters, not wages alone; (3) ensuring that the information about government-sector wages and benefits is transparent, accessible, and disclosed regularly; and (4) instituting mechanisms for setting compensation such as wage boards. For more details, see Lammam, Palacios, Ren, and Clemens, 2015b.

Figure 1: Components (%) of total employment in Ontario, 2018



Sources: Statistics Canada, 2019a; calculations by the authors.

hospitals (Statistics Canada, 2018).³ In contrast, there were 4.7 million workers employed in the private sector in 2018, 65.5% of total employment (Statistics Canada, 2019a). The remaining 15.5% were self-employed.

Comparing wages in Ontario's government and private sectors

A number of studies have empirically quantified wage differences between similar occupations in the private and public sectors. Nearly all of these studies measure just the wage differences between the public and private sectors; this is a result of the

³ Unless otherwise stated, data used in this section come from Statistics Canada's Labour Force Survey. This is a household survey completed by a representative sample of the civilian population 15 years of age or older. Excluded from the survey's coverage are persons living on reserves and other Aboriginal settlements in the provinces, full-time members of the Canadian Forces, and the institutionalized population (for example, inmates of penal institutions and patients in hospitals or nursing homes who have resided in the institution for more than six months). These groups together represent an exclusion of approximately 2.0% of the population aged 15 and over (Statistics Canada, 2018).

lack of data on non-wage benefits. The Canadian research examining wage differences between the two sectors over the past three decades consistently indicates a premium for government-sector workers.⁴ The specific wage premiums vary depending on the data source and time period. What is clear, however, is that a premium exists.⁵

Methodology and data sources

This report provides new calculations for the government-sector wage premium in Ontario. It uses aggregated monthly data on individual workers from the Labour Force Survey from January to December of 2018 (Statistics Canada, 2019b).⁶ The major advantage of the data from the Labour Force Survey is that public-sector workers are explicitly identified, whereas they are not in the National Household Survey data.⁷ The

⁴ For a thorough review on wage differentials in the public and private sector in Canada, see Lammam, Palacios, Ren, and Clemens, 2015b.

⁵ The reason for the premium in the government sector is twofold. The process of determining wages in the public sector is markedly different from that in the private sector. The wage process in the government sector is largely determined by political factors, while the process in the private sector is largely guided by market forces and profit constraints. These differences are amplified by the monopoly environment in which the government sector operates while the private sector faces a competitive environment. For a more detailed explanation of the causes for the compensation premium observed in the public sector, see Lammam, Palacios, Ren, and Clemens, 2015b.

⁶ The Labour Force Survey is a monthly survey. However, the data used for the empirical analysis in this report is aggregated data over the 12-month period from January to December 2018.

⁷ The Labour Force Survey has a "class of worker" variable that designates whether the employer is a government or privately owned enterprise, whereas the National Household Survey does not have such a variable to distinguish government from private employers.

sample for Ontario from the Labour Force Survey consists 167,964 individuals for whom their hourly wage rate, age, gender, education, marital status, type of work, and other characteristics are available. Our analysis covers paid government- and private-sector employees only (persons 15 years of age and over with employment income). It excludes the self-employed, unemployed persons, and persons not in the labour force. The Labour Force Survey breaks down the data by sector (public and private) but does not provide data for different levels of government. Therefore, the public-sector wage premium in this section contains workers from the federal, provincial, and local governments in Ontario.⁸

2. The public-sector wage premium—results from empirical analysis

The analysis in this section updates the analysis done by Palacios, Jacques, Lammam, and Lafleur (2018)⁹ and follows earlier academic work by

⁸ Specifically, the Labour Force Survey considers the public sector as those working for federal general government (i.e., federal public administration), federal government business enterprises, provincial general government, provincial health and social service institutions, universities, colleges, vocational and trade institutions, provincial government business enterprises, local general government, local school boards, and local government business enterprises. Those in the military armed forces are excluded from the survey.

⁹ Palacios, Jacques, Lammam, and Lafleur (2018) use aggregated data from the monthly Labour Force Survey over the 12-month period from January to December 2017 and calculate a public-sector wage premium of 39.1%, without controlling for other independent variables, and 10.6% after accounting for gender, age, marital status, level of education, job status, tenure, size of firm, full-time/part-time, occupation, and industry. When unionization is accounted for, the public-sector wage premium was 7.6%. They do not control for immigrant status in

Gunderson, Hyatt, and Riddell (2000). An ordinary least squares (OLS) model was employed to determine if and how much wage premium might exist between the government and private sectors. For details on the methodology used to compute the public sector wage premium in this section, please see Lammam, Palacios, Ren, and Clemens, 2015a.

Table 1 summarizes the results of the analysis of the comparison of public and private wage sectors in Ontario. The column labelled “Model 1” provides the public-sector wage premium calculation without controlling for any factors. In other words, Model 1 represents a calculation that does not account for variables like age, experience, education, and so forth, which we know influence wages. The Model 1 estimate indicates that wages in Ontario’s public sector (including federal, provincial, and local public-sector workers), are 35.5% higher, on average, than in the private sector.

A more appropriate way to determine if there is a wage premium in the public sector is to control for different factors such as gender, age, level of education, tenure, type of employment (seasonal, contractual), part-time or full-time work, establishment size, immigrant status, industry, and occupation, which affect individual wage levels. Model 2 in table 1 controls for these personal characteristics. Controlling for these factors reduces the public-sector wage premium in

their model. If we replicate their methodology (excluding immigrant status as a control variable) and use monthly Labour Force Survey data aggregated from January to December 2018, the public-sector wage premium is 10.9% after controlling for different factors. When unionization is included in our model, the premium is reduced to 7.7%. These are similar to results in Palacios, Jacques, Lammam, and Lafleur (2018), implying no major change in wage differential from 2017 to 2018 in the province.

Table 1: Summary of the public-sector wage premium in Ontario, 2017

Dependant variable = log of hourly wage.

	Model 1	Model 2	Model 2 (controlling for unionization)
	Coefficient	Coefficient	Coefficient
(Private)			
Public	35.5	10.3	7.3
N	167,964	167,964	167,964
Adjusted R ²	0.11	0.58	0.58

Notes: [a] The control variables used in the regressions include sex, age, marital status, education, tenure, type of employment (seasonal, contractual), part-time or full-time work, establishment size, immigrant status, industry and occupation. [b] Self-employment is not included. [c] Estimates are significant at 99%.

Sources: Statistics Canada, 2019b; calculations by the authors.

Ontario to 10.3%, on average.¹⁰ When unionization is included in Model 2, the premium falls to 7.3%, which is nevertheless a significant gap.

10 Model 2 also provides details on the differences in wages across various personal and job characteristics (not shown in table 1). For instance, after controlling for other wage-determining factors, men, on average, earn 9.9% more than women. As expected, higher education levels lead to higher wages. In fact, those who graduate from high school earn 5.1% more than those with elementary education or less. A university graduate earns 14.7% more than those with only elementary schooling, on average, whereas those with a graduate degree earn 20.3% more. Recent immigrants, defined as those landed 10 or fewer years ago, and established immigrants (landed more than 10 years ago) earn, respectively, 10.6% and 5.7% less than non-immigrants. Moreover, those with full-time, permanent jobs, and longer tenure, earn, on average, higher wages than those with temporary, part-time jobs, and shorter tenure. On average, those with seasonal, contract, and casual work earn between 5.8% and 7.4% less than those with permanent jobs. The hourly wage of those who work part time is 5.8% less than those with full-time jobs.

3. Comparing non-wage benefits in Ontario's public and private sectors

Although public-sector workers in Ontario enjoy a wage premium, this does not tell us whether their overall compensation is higher than, comparable to, or lower than that of workers in the private sector. That is because wages are only a part of total employee compensation. Unfortunately, individual-level data on non-wage benefits (such as pensions, vacation time, and health benefits) are not readily available in Canada, which explains the lack of research on this aspect of employee compensation. It is critical that Canada's statistical agency, Statistics Canada, augment its current survey in order to begin collecting and analyzing data on non-wage benefits.

Fortunately, there are some aggregated data on non-wage benefits that can be examined to roughly compare how Ontario's public-sector non-wage benefits compare to those of the province's private sector. Four types of non-wage benefits data are examined: registered pensions, average age of retirement, job loss (as a proxy of job security), and the absence rate of full-time employees.

Registered pensions

The pension benefit is the first non-wage benefit to consider. The benefit has two important dimensions. The first is the percentage of workers in both sectors who have a registered pension. The second is the type of pension plan in each sector. Table 2 summarizes the pension data for Ontario and Canada.

There is a dramatic difference between the registered pension coverage in the public and private sectors. In 2018, 24.6% of private-sector workers in Ontario were covered by a registered pension plan, compared to 82.7% of public-sector workers. In other words, while almost 1 of every 4 private-sector workers have a registered pension

Table 2: Registered pension plan (RPP) members in Ontario and Canada, by type of plan and sector, January 1, 2018

	ONTARIO			CANADA		
	Total (public and private)	Private sector	Public sector	Total (public and private)	Private sector	Public sector
Total number of members who have:	2,427,927	1,288,893	1,139,034	6,325,712	2,999,716	3,325,996
<i>Defined benefit plans</i>	1,591,991	512,716	1,079,275	4,240,414	1,219,867	3,020,547
<i>Defined contribution plans</i>	419,170	400,561	18,609	1,161,400	1,009,870	151,530
<i>Other pension plans</i>	416,766	375,616	41,150	923,898	769,979	153,919
Total Employment, 2018	6,622,200	5,245,500	1,376,700	17,113,400	13,322,300	3,791,100
Percentage of employees covered by pension plans	36.7	24.6	82.7	37.0	22.5	87.7
As a % of total number of members						
<i>Defined benefit plans</i>	65.6	39.8	94.8	67.0	40.7	90.8
<i>Defined contribution plans</i>	17.3	31.1	1.6	18.4	33.7	4.6
<i>Other pension plans</i>	17.2	29.1	3.6	14.6	25.7	4.6

Notes: [a] Total employment includes workers in the public and private sector as well as self-employed workers in incorporated businesses (with and without paid help). Self-employed incorporated businesses are included in the private sector because, like their public- and private-sector counterparts, they are able to have a registered pension plan (RPP). [b] The registered pension plan data comes from the annual Pension Plans in Canada Survey (PPIC). Meanwhile, total employment data comes from Statistics Canada's Labour Force Survey (LFS). Although these two data sets (PPIC and LFS) are comparable, there are some conceptual differences that should be pointed out. First, members of Canadian Registered Pension Plans (RPP) living on Indian reserves (in any province or territory) as well as those working outside Canada (less than 1% of total RPP membership) are included in the pension plan membership but these groups are excluded from Labour Force Survey estimates. Second, labour force estimates are annual averages while pension plan membership refers to the number of active, employed participants as of January 1, 2018. Finally, the Labour Force Survey does not cover full-time members of the Armed Forces. [c] Because of some conceptual differences between the PPIC and LFS, the percentage of employees covered by pension plan might be lower than the numbers shown in this table. [d] Numbers may not add up to the total due to rounding.

Sources: Statistics Canada, 2019a, 2019c; calculations by the authors.

plan, more than 8 of every 10 public-sector workers do. This gap between the two sectors is also evident when we consider the second dimension, the type of pension plan in each sector.

A defined benefit plan provides workers with a guaranteed benefit in retirement. A defined contribution plan, on the other hand, provides

employees with a benefit that is based on their contributions, their employer's contributions, and earnings on the pension savings over time.

A defined benefit plan is increasingly scarce in the private sector because of its high costs and risks for employers. Specifically, in a defined benefit pension plan, the employer bears all the

financial risk since the employee is guaranteed the benefit. If returns on the pension's investment fund do not match expectations, the employer must increase the contributions to the plan to fully fund the guaranteed benefit. The comparative data presented in table 2 illustrate the increasing scarcity of defined benefit pensions in the private sector compared to the prevalence of these pension plans in the public sector. In 2018, of the workers in Ontario who were covered by a pension plan, 94.8% of those in the public sector enjoyed a defined benefit pension compared to 39.8% of those in the private sector. While somewhat fewer than 4 out of 10 private-sector workers with a pension have a pension with a guaranteed benefit in retirement, a guaranteed benefit is the norm in the public sector. Public-sector workers in Ontario are much more likely to be in a registered pension plan, and are much more likely to receive a defined benefit pension than their private-sector counterparts.

Average age of retirement

Public-sector employees in Ontario not only earn more and are more likely to be covered by pension plans, but they also tend to retire earlier. Table 3 presents data on the average age of retirement for public- and private-sector workers between 2014 and 2018, for Canada as a whole and for individual provinces.¹¹ On average, Ontario's public-sector employees tend to retire 2.0 years earlier than their private-sector peers.¹²

¹¹ Statistics Canada notes that the data on age of retirement should be used with caution because of small sample sizes, especially for the provinces. Five-year averages were used (2014–2018) to mitigate this problem.

¹² The authors also examined median retirement age. Regardless of whether the average or median age of retirement is used, public-sector workers in Ontario retire at an earlier age than their private-sector coun-

Table 3: Average retirement age (years), 2014–2018

	Total	Public-sector employees	Private-sector employees	Difference (years)
Canada	63.5	61.5	64.0	2.4
NL	62.2	59.7	63.9	4.2
PEI	64.1	62.4	65.7	3.3
NS	63.0	61.1	64.0	2.9
NB	63.0	61.3	63.6	2.3
QC	62.7	60.5	63.5	3.0
ON	63.5	61.8	63.8	2.0
MB	63.5	61.8	64.3	2.6
SK	64.1	62.0	63.9	1.9
AB	64.5	62.8	64.5	1.8
BC	64.0	62.3	64.2	1.9

Notes: [a] Total includes workers in the public and private sector, and self-employed individuals (including unpaid family workers). [b] The difference in years may not equal the difference as displayed by the data because the retirement age years for both the public and private sectors are rounded.

Sources: Statistics Canada, 2019d; calculations by the authors.

Job loss as a proxy for job security

Another way to compare government- and private-sector employees is to consider how likely each group is to experience job losses. Table 4 presents data on job losses in 2018 (excluding those with temporary employment) for Canada as a whole and for the provinces. There are several reasons for job

terparts. If the median retirement age is used, the difference in years is slightly larger. For instance, Ontario's public-sector workers retire 2.7 years earlier than the private-sector employees if the median rather than the average is used.

Table 4: Job loss by sector, 2018

	JOB LOSSES (thousands)			JOB LOSSES (% of employment)			
	Total	Public sector	Private sector	Total	Public sector	Private sector	Difference (percentage points)
Canada	310.3	16.3	294.0	2.0	0.4	2.4	2.0
NL	10.8	0.7	10.1	5.2	1.1	7.1	6.1
PEI	1.5	n/a	1.4	2.3	n/a	3.1	n/a
NS	7.9	n/a	7.5	2.0	n/a	2.7	n/a
NB	9.8	0.5	9.3	3.1	0.6	4.1	3.6
QC	65.3	2.1	63.2	1.8	0.2	2.3	2.1
ON	115.1	7.0	108.1	1.9	0.5	2.3	1.8
MB	9.1	0.9	8.2	1.6	0.6	2.1	1.5
SK	10.3	0.7	9.6	2.2	0.5	2.9	2.4
AB	49.9	2.8	47.1	2.6	0.6	3.2	2.5
BC	30.6	n/a	29.6	1.5	n/a	1.8	n/a

Notes: [a] Total employment includes workers in the public and private sector. Self-employment is not included. [b] Reasons for losing a job include (1) company moved, (2) company went out of business, (3) business conditions and (4) dismissal by employer. Job losses as a result of an end of temporary, casual, and seasonal job are not included. [c] The difference in years may not equal the difference as displayed by the data because the job loss percentages for both the public and private sectors are rounded. [d] "n/a" denotes estimates that are suppressed (cannot be published) because the data is below the confidentiality threshold. This threshold is 1,500 for Canada, Quebec, Ontario, Alberta and British Columbia; less than 500 for Newfoundland & Labrador, New Brunswick, Nova Scotia, Manitoba, and Saskatchewan; and less than 200 for Prince Edward Island. For suppression levels within census metropolitan areas (CMAs), census agglomerations (CA), and economic regions (ERs), use the respective provincial suppression levels above.

Sources: Statistics Canada, 2019a, 2019e; calculations by the authors.

loss, including firms moving location, firms going out of business, changing business conditions, and dismissal. In 2018, 2.3% of those employed in the private sector experienced job loss in Ontario, compared to only 0.5% of those employed in the public sector. That means the rate of job loss was nearly five times higher in the private sector.

Absence rate of full-time employees

Table 5 presents a measure of the absence rate in the two sectors: total days lost per worker in 2018. Among full-time employees, an average of 7.8 days was lost for personal reasons in the private sector in Ontario, compared to 13.7 days in the public sector (5.9 days more).

Table 5: Total days lost per worker, full-time employees, by sector, 2018

	Total	Public sector	Private sector	Difference (days)
Canada	10.0	14.6	8.6	6.0
NL	11.0	15.6	9.0	6.6
PEI	9.5	12.7	8.2	4.5
NS	10.9	15.0	9.3	5.7
NB	10.8	14.6	9.4	5.2
QC	11.8	16.9	10.2	6.7
ON	9.1	13.7	7.8	5.9
MB	10.8	14.5	9.4	5.1
SK	10.2	13.6	8.7	4.9
AB	8.7	12.4	7.6	4.8
BC	10.3	15.1	9.0	6.1

Notes: [a] Absence data are only for personal reasons: that is, illness or disability, and personal or family responsibility. [b] Days lost per worker are calculated by multiplying the inactivity rate (number of hours lost as a proportion of the usual weekly hours worked by full-time workers) by the estimated number of working days in the year (250). The estimated number of working days in the year (250) is in line with other research in the field. This number assumes that the typical full-time employee works a 5-day week and is entitled to all statutory holidays (around 10 days a year). Thus, the potential annual labour supply of a typical worker would be 52 weeks multiplied by 5, less 10 statutory holidays, or 250 days. This allows the days lost per worker in a year to be calculated.

Sources: Statistics Canada, 2019f; calculations by the authors.

Conclusion

In 2018, Ontario’s government-sector workers earned a wage premium of 10.3%, on average. When unionization is accounted for, the wage premium declines to 7.3%. These findings are in line with previous research investigating wage differences between the two sectors. While there is insufficient data to make a definitive statement about the differences in non-wage benefits between the public and private sectors in Ontario, the available data suggest that the public sector enjoys more generous non-wage benefits than the private sector, including higher rates of pension coverage, higher rates of defined benefit pensions, earlier ages of retirement, lower rates of job loss, and more days lost per worker.

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