

Indiana **Business Review**

**Mixed Messages in
Compensation**



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From the Editors

Money: we all need it. And just as there are numerous ways to earn it, there are multiple ways to measure it. This issue of the *Indiana Business Review* explores a few of those ways.

Morton Marcus measures what employers pay workers directly through salaries and wages and indirectly with pensions and insurance. But there is more to income than earning it, as Matt Kinghorn analyzes the individual components of our personal income and what these figures mean for Indiana. Income's largest share comes from work earnings but many of us also receive income in the form of transfer payments such as Social Security checks and, for a considerable few of us, investment income. Rounding out this issue is a one-page graphical comparison of median family income for those with one wage-earner versus two wage-earners using data collected from the American Community Survey.

Mixed Messages in Compensation per Job

Morton J. Marcus

Director Emeritus, Indiana Business Research Center, Kelley School of Business, Indiana University

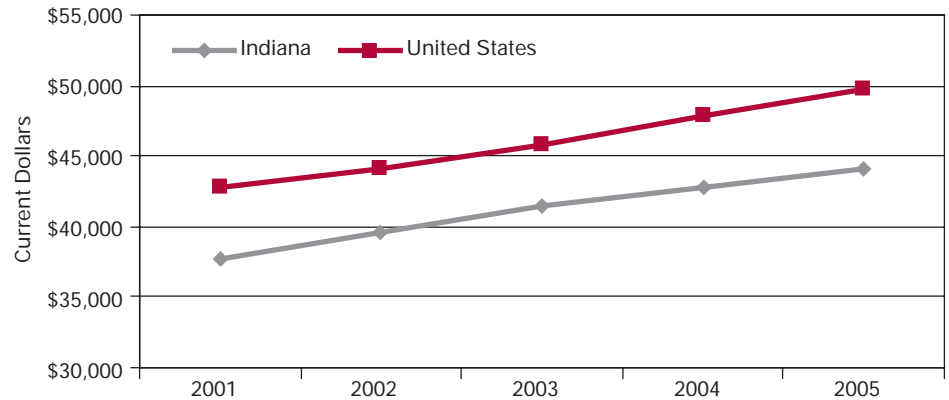
Indiana and the Nation

How is Indiana doing compared with the nation? As economists are wont to say: "It depends." Over a four-year period of time, compensation per job in the state has grown just slightly faster than the United States, but for the most recent past year, we have trailed the nation.

In 2001, Indiana's compensation per job¹ (wages, salaries, bonuses, employer contributions to pensions and benefits, as well as social security and Medicare) stood at \$37,754 or 88.3 percent of the nation's \$42,742. Hoosiers lagged by \$4,988. By 2005, we were up to 88.6 percent of the national level, but \$5,680 behind the U.S. average (see **Figure 1**).

How can we be gaining and losing out at the same time? Our relative position is improving (our percent of the national level) but our absolute difference from the United States is deteriorating. The reason is that our rate of growth in compensation per job is only slightly higher than that of the nation. A somewhat slower rate of growth applied to a higher level yields more in gains than does the faster growth rate applied to a lower initial level. Hence the two lines in **Figure 1** are further apart in

Figure 1
Compensation per Job, 2001 to 2005



Source: IBRC, using Bureau of Economic Analysis data

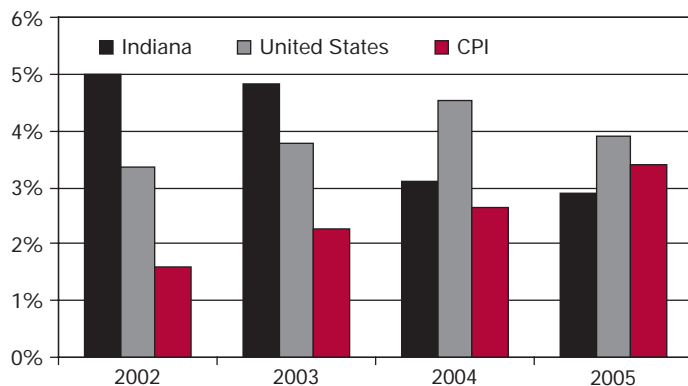
2005 than 2001, despite the fact that Indiana had a marginally higher rate of growth.

The growth rates over this period are of interest (see **Figure 2**). Indiana's rates of growth have slowed between 2002 and 2005 while the nation saw an upward trend from 2002 to 2004. At the same time, the Consumer Price Index (CPI) has risen progressively, cutting into the real gains of all Americans. In 2005, the CPI rate of growth exceeded Indiana's growth in compensation per job, thus leaving Hoosiers with a decrease in real compensation growth.

The differences in cumulative nominal and real growth of compensation per job are shown in **Figure 3**. Although Hoosier jobs seemed to pay a cumulative gain of \$6,341, after adjusting for inflation this was merely \$2,282 in dollars of constant buying power. Thus jobs in the United States and Indiana offered a real cumulative gain of just 36 percent of their nominal amount.

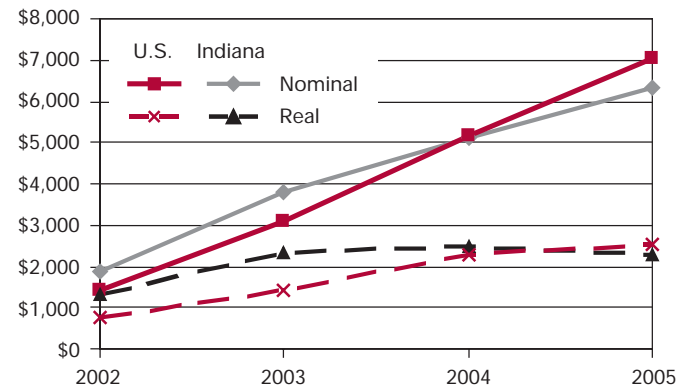
Between 2001 and 2005, Indiana's total compensation per job grew faster than the nation (16.8 percent vs. 16.5 percent). Although the difference is small, some might brag about our

Figure 2
Rate of Growth in Compensation per Job, 2002 to 2005



Source: IBRC, using Bureau of Economic Analysis data

Figure 3
Cumulative Gains in Compensation per Job, 2002 to 2005



Source: IBRC, using Bureau of Economic Analysis data

“Indiana’s average compensation per job ranked lower in 2005 than 2001, despite growing by \$6,341.”

“superior” growth rate. Why did our compensation per job grow faster than the nation? The answer lies in the mystery of numerators and denominators.

Total compensation in the United States grew by 18.2 percent while advancing by 16.9 percent in Indiana from 2001 to 2005. During the same years, the nation’s number of jobs grew by 1.5 percent while Indiana had an anemic 0.1 percent increase in jobs. Our compensation per job grew faster than the nation only because we added hardly any jobs during these four years.

Table 1 is derived from total compensation figures by industry for Indiana and the nation. The industries shown had to meet two conditions:

1. They had to constitute more than 0.05 percent of Indiana’s total compensation in 2001 because we do not want to deal with industries that are very

small contributors to the state’s economy.

2. They had to have a growth rate differential from the national growth rate of ± 3 percent so that we were not dealing with insignificant differences.

The industries in **Table 1** are shown in rank order of their total compensation growth rate. Thus, Indiana state government at 41.5 percent had the fastest growth rate in total compensation between 2001 and 2005. This was the second highest differential from the same industry’s national counterpart. In 2001, state government represented 3.5 percent of total compensation in the state.

The ten Indiana industries doing best relative to the nation represent 20.5 percent of the state’s total compensation. In this top ten, six industries are involved in manufacturing. The bottom ten (starting with federal civilian government) equal 13.9 percent

of that total. In the bottom ten, only one industry is engaged in manufacturing. Note that amusement, gambling, and recreation ranks only twenty-second in growth rate at 10 percent compared to the all industry rate of 16.9 percent and below the national rate of 18.3 percent for that industry. Is this why there is a desire to increase gambling in the state? Credit intermediation, Indiana’s most lagging industry, is the federal government’s term for banks, credit unions, and similar institutions that take deposits and make loans.

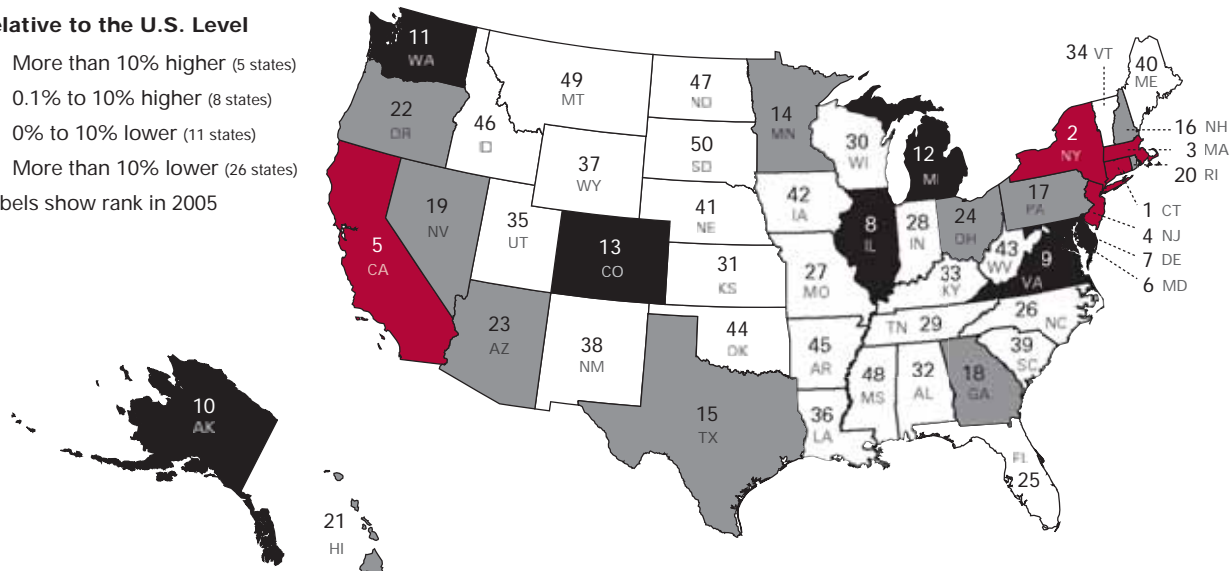
Indiana Among the States

Indiana’s average compensation per job ranked twenty-seventh among the states in 2001 and, despite growing by \$6,341, ranked lower at twenty-eighth in 2005. The financial giants (Connecticut—\$63,279, New York, Massachusetts, and New Jersey) ranked first to fourth. At the bottom of the list was South Dakota with an average compensation per job of \$36,123, followed by Montana, Mississippi, and North Dakota (see **Figure 4**). These are rankings among the fifty states because the District of Columbia is not included in the

Figure 4
States’ Compensation per Job Relative to the United States, 2005

Relative to the U.S. Level

- More than 10% higher (5 states)
 - 0.1% to 10% higher (8 states)
 - 0% to 10% lower (11 states)
 - More than 10% lower (26 states)
- Labels show rank in 2005



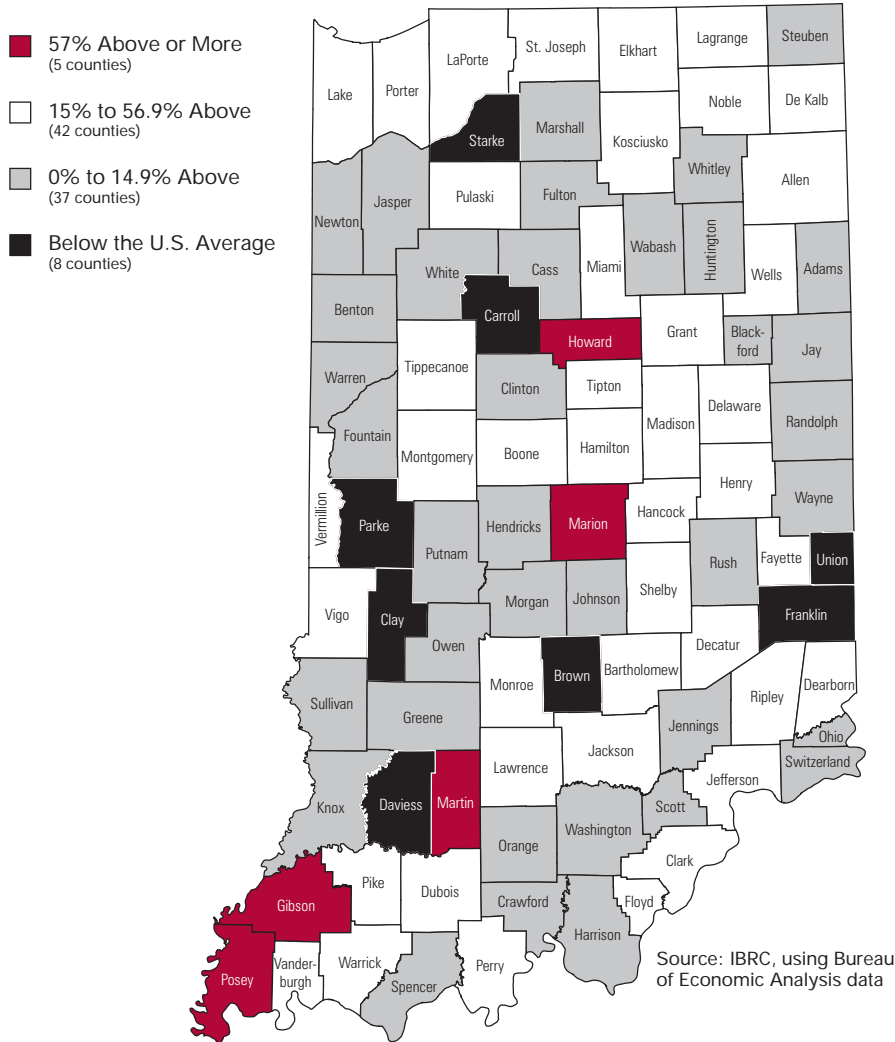
Source: IBRC, using Bureau of Economic Analysis data

Table 1
Total Compensation by Industry, 2001 to 2005

Total Compensation by Industry	Percent Change, 2001 to 2005			Percentage Point Difference		Percent of Total Compensation	
	Indiana	Rank	United States	Indiana minus United States	Rank	Indiana, 2001	Rank
All Industries	16.9	n/a	18.2	-1.3	n/a	n/a	n/a
State Government	41.5	1	22.0	19.5	2	3.5	3
Administrative and Support Services	33.4	2	23.1	10.3	4	2.6	7
Furniture and Related Product Manufacturing	27.4	3	20.2	7.2	6	0.9	23
Hospitals	27.3	4	32.0	-4.7	15	3.1	6
Motor Vehicles, Bodies and Trailers, and Parts Manufacturing	19.9	5	7.8	12.1	3	7.0	2
Real Estate, Rental and Leasing	19.5	6	25.8	-6.3	21	1.0	20
Food Services and Drinking Places	18.2	7	24.7	-6.4	22	2.2	11
Other Transportation Equipment Manufacturing	18.0	8	14.1	3.9	10	0.7	28
Local Government	17.9	9	23.3	-5.4	18	8.7	1
Nursing and Residential Care Facilities	17.6	10	23.3	-5.7	20	1.3	16
Federal Government, Civilian	17.4	11	24.0	-6.6	23	2.2	10
Utilities	17.1	12	14.0	3.1	12	0.9	21
Food Manufacturing	16.7	13	11.2	5.4	9	1.1	19
Building Material and Garden Supply Stores	15.9	14	25.4	-9.5	28	0.7	27
General Merchandise Stores	14.1	15	22.3	-8.1	25	1.2	17
Telecommunications	12.8	16	-7.4	20.3	1	0.8	24
Construction of Buildings	12.8	17	26.8	-14.0	29	1.6	14
Specialty Trade Contractors	12.7	18	17.8	-5.1	16	3.5	4
Management of Companies and Enterprises	10.3	19	27.4	-17.0	31	1.8	13
Machinery Manufacturing	10.0	20	3.5	6.5	8	2.3	8
Insurance Carriers and Related Activities	10.0	21	24.9	-14.9	30	2.3	9
Amusement, Gambling and Recreation	10.0	22	18.3	-8.3	26	0.8	25
Publishing Industries, Except Internet	9.7	23	-0.4	10.1	5	0.6	32
Motor Vehicle and Parts Dealers	9.1	24	14.3	-5.2	17	1.4	15
Personal and Laundry Services	7.4	25	14.6	-7.1	24	0.6	31
Credit Intermediation and Related Activities	7.1	26	33.7	-26.6	32	2.0	12
Wood Product Manufacturing	6.5	27	15.2	-8.7	27	0.7	30
Nonmetallic Mineral Product Manufacturing	5.6	28	8.6	-3.0	13	0.7	29
Primary Metal Manufacturing	3.0	29	-0.5	3.4	11	3.3	5
Food and Beverage Stores	2.9	30	7.4	-4.4	14	0.9	22
Computer and Electronic Product Manufacturing	1.1	31	-6.1	7.1	7	1.1	18
Electrical Equipment and Appliance Manufacturing	-0.7	32	4.9	-5.7	19	0.8	26

Source: Bureau of Economic Analysis

Figure 6
Counties' Compensation per Job Relative to the U.S. Average, 2005



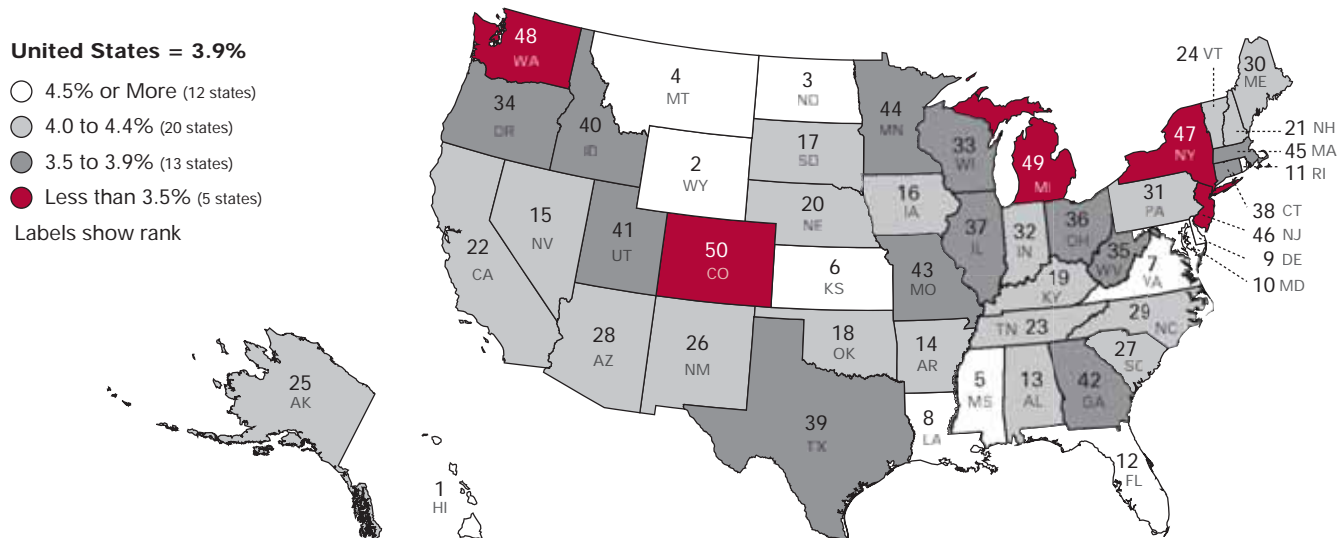
ranking. The District of Columbia had an average compensation per job of \$84,120 in 2005, which was 69 percent above the United States; its growth rate was 4.8 percent from 2001 to 2005.

With an average annual growth rate of 3.96 percent, Indiana ranked thirty-second among the states. As shown in **Figure 5**, our neighbors Illinois, Ohio, Michigan, and Wisconsin all ranked below us; Kentucky came in at 4.3 percent (nineteenth). There was no meaningful relationship between the level of compensation per job and the rate of growth in that figure; thus, the rich states are not getting richer while the poor states are failing to keep pace.

Indiana Counties

Some may find it strange, but Martin County, at \$70,645, had the highest compensation per job in Indiana in 2005. The presence of high paying jobs at Crane and the paucity of other jobs allowed this south-central Indiana county to enjoy such status. The next highest paying jobs were found in Howard, Gibson, Posey, and Marion counties (see **Figure 6**). The lowest average paying jobs were

Figure 5
Percent Change in Compensation per Job, 2001 to 2005



Key Aspects of Per Capita Personal Income

Matt Kinghorn

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Total personal income and per capita personal income (PCPI) are two of our most relied upon measures of economic standing. These indicators are a useful way to, among other things, gauge economic growth over time or compare counties and states to their counterparts. Indiana's 2005 PCPI, for instance, stands at \$31,150. This mark places Indiana thirty-fourth among all states and is only 90 percent of the U.S. PCPI of \$34,495.

What does a figure like this actually mean though? What does it tell us about how Hoosiers earn their income or how much is actually available to them to be spent? The Bureau of Economic Analysis, which calculates these statistics, offers several ways to deconstruct personal income and view its component parts.

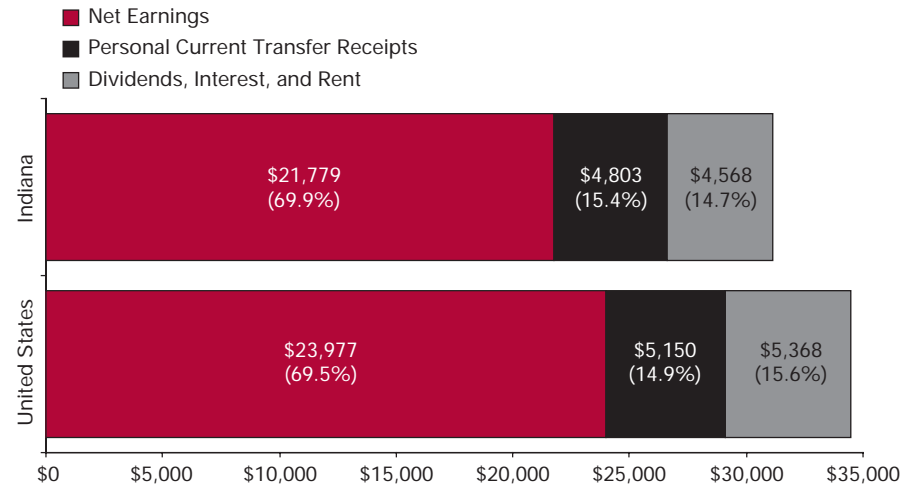
Components of Personal Income

The BEA uses three components to determine personal income: employment earnings, transfer payments (government payments made to individuals), and investment income (dividends, interest, and rent). **Figure 1** shows that the component shares of Indiana's PCPI are nearly identical to those of the United States. In each case, earnings account for around 69 percent of all personal income. The lone difference among the two is that transfer payments hold a slight edge over investment income in Indiana while the opposite is true for the nation.

The key trend in terms of personal income composition has been the steady growth in transfer payments at the expense of earnings over the past forty years.

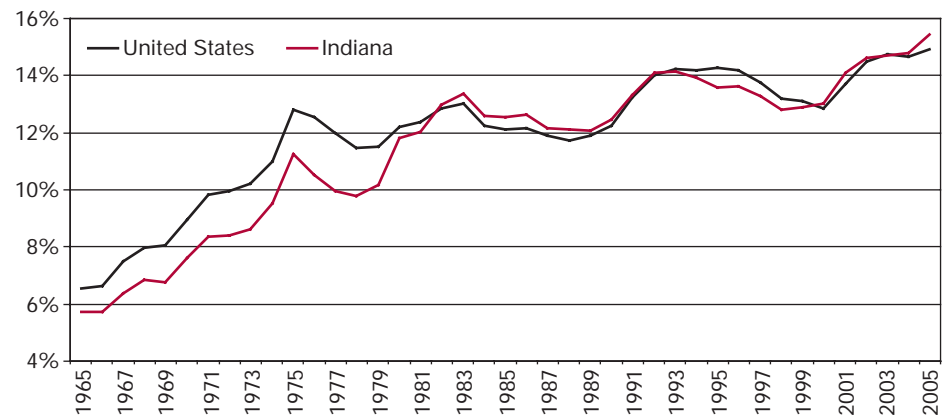
Indiana's share of transfer payments has grown from 5.7 percent of all personal income in 1965 to 15.4 percent in 2005 (see **Figure 2**). At

Figure 1
Component Shares of PCPI in Indiana and the United States, 2005



Source: IBRC, using Bureau of Economic Analysis data

Figure 2
Transfer Payments as a Percent of Total Personal Income, 1965 to 2005



Source: IBRC, using Bureau of Economic Analysis data

the same time, Hoosier earnings as a share of the total decreased from 82.5 percent to 69.9 percent. Indiana's investment income as a percent of personal income reached as high as 19 percent several times between 1984 and 1990 before settling in at its current 14.7 percent.

What is driving this shift? The quick answer is the combined effects of an aging population, increased life expectancy, and an expansion in public benefits. In this respect,

1965—the year that the Medicare and Medicaid programs were created—is a watershed date. These two programs accounted for nearly 40 percent of all transfer payments to Indiana residents in 2005 (see **Table 1**). Other benefit types that increased their share of transfer payments between 1965 and 2005 were income maintenance benefits (supplemental security income, family assistance, food stamps, etc.) and federal education and training assistance.

Table 1
Selected Transfer Payments in Indiana, 1965 and 2005

Transfer Type	1965		2005		Percentage Point Change, 1965 to 2005
	Transfers (in Thousands)	Percent of Total	Transfers (in Thousands)	Percent of Total	
Personal current transfer receipts	\$805,859	100	\$30,126,364	100	n/a
Retirement and disability insurance benefits	\$534,673	66.3	\$12,359,549	41.0	-25.3
Medical benefits	\$18,161	2.3	\$11,992,635	39.8	37.6
Income maintenance benefits	\$33,694	4.2	\$2,580,687	8.6	4.4
Unemployment insurance compensation	\$27,837	3.5	\$701,213	2.3	-1.1
Veterans benefits	\$106,919	13.3	\$528,722	1.8	-11.5
Federal education and training assistance	\$4,138	0.5	\$376,161	1.2	0.7

Source: Bureau of Economic Analysis

While Indiana’s transfer payment share closely resembles that of the overall United States, there is actually quite a bit of variability among the states. **Figure 3** illustrates the percent of each state’s personal income that is attributed to transfer payments. The one figure that jumps off the map is in Louisiana. This figure is certainly attributed to assistance in the wake of Hurricane Katrina as it represents a 51 percent increase over 2004. Indiana ranks twenty-third in the nation in terms of transfer payments as a percent of personal income.

Disposable Income

Another key aspect of the personal income puzzle is disposable personal income (DPI). DPI is simply personal income after personal taxes are removed. In other words, DPI represents the amount of money that people have available to spend or save as they wish.

BEA’s measure of personal current taxes is based primarily on federal, state, and local income taxes. Other types of taxes in this indicator include personal property taxes (although not property taxes paid on homes, which is calculated as an expense and subtracted directly from BEA’s personal income calculation), state and local licensing of vehicles, hunting and fishing permits, and marriage licenses.

The notable omissions of sales and property taxes from BEA’s formulation make this an imperfect tool for making an “apples to apples” comparison of tax liability by state. For instance, six states do not collect

their own income tax but may instead apply higher sales or property taxes.

The BEA estimates that Hoosiers paid \$3,254 in personal taxes on a per capita basis in 2005. These taxes account for 10.4 percent of Indiana’s PCPI and result in a per capita disposable personal income (PCDPI) of \$27,896, ranking thirty-fourth in the United States.

Figure 4 tracks Indiana’s personal taxes as a percent of its personal income compared to the United States. These follow a similar trend since, on average, federal income taxes have accounted for 82 percent of Indiana’s and the United States’ total personal tax since 1965. The share of

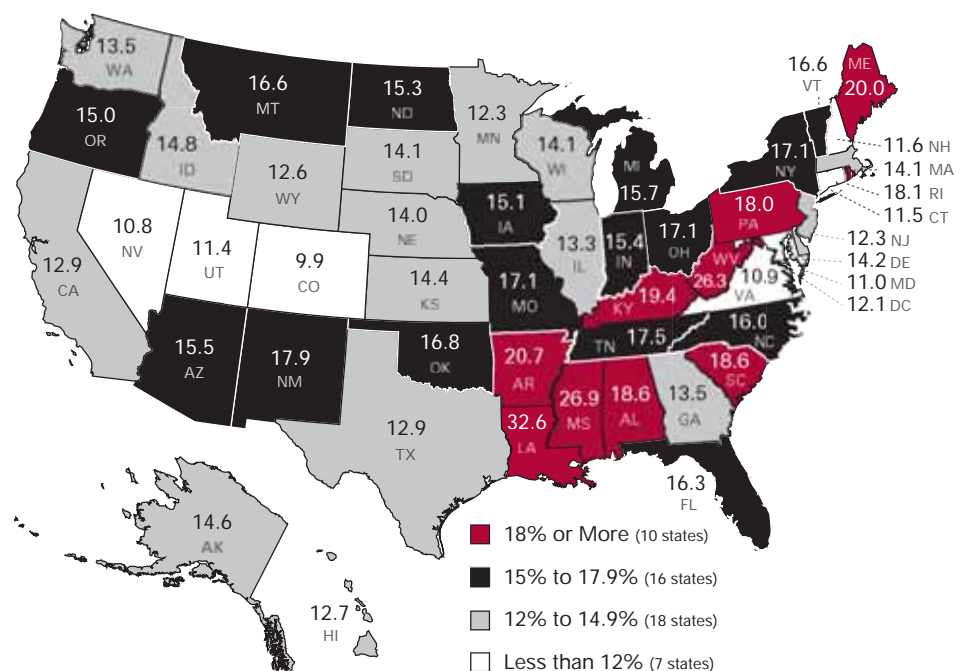
Indiana’s personal income that is paid in personal taxes declined steadily from 1999 to 2004 when it reached its lowest point of 9.7 percent.

Figure 5 illustrates the level of personal taxes as a percent of personal income by state. Not surprisingly, the highest percentages are found in the Northeast and Mid-Atlantic states as well as California. Indiana recorded the twenty-second lowest percentage in 2005.

What about Benefits?

An important segment of many Hoosier’s incomes are fringe benefits in the form of employer contributions to pensions, private insurance funds,

Figure 3
Transfer Payments as a Percent of Personal Income by State, 2005



Source: IBRC, using Bureau of Economic Analysis data

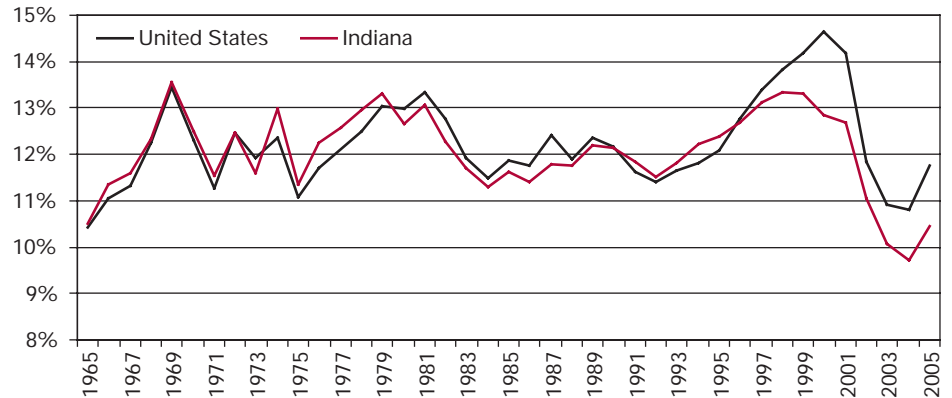
and government social insurance. BEA combines these benefits with wages and salaries paid to employees to define a compensation of employees measure.

The components of Indiana's 2005 total compensation break-down in the following manner: wages and salary account for 79 percent; employer contributions to pensions and private insurance funds represent 15 percent; and employer contributions to government social insurance adds 6 percent.

However, employer contributions to government social insurance are not a direct benefit to the actual employee, but rather part of the vehicle that is used to pay for transfer payments. Wages and salaries plus employer contributions to pensions and private insurance funds (benefits) contribute to the earnings component of personal income discussed earlier.

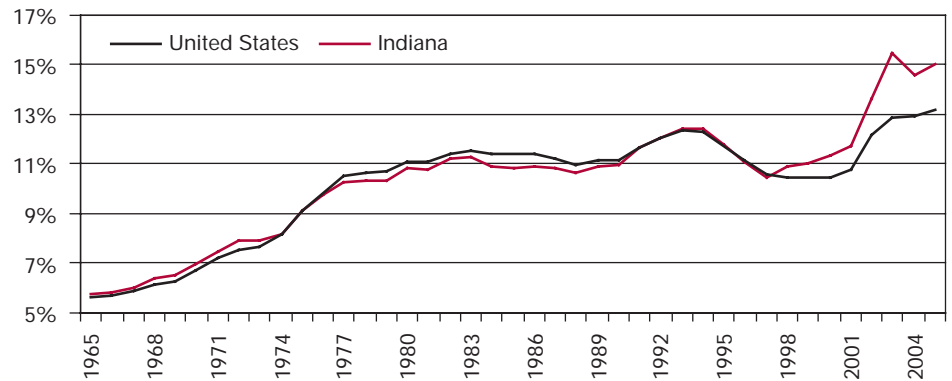
Indiana's share of employer contributions to benefits as a percent of compensation has increased nearly threefold since 1965 (see **Figure 6**). Indiana's growth since 2001 has been particularly sharp with an increase from 11.7 percent to 15 percent. ■

Figure 4
Personal Current Taxes as a Percent of Total Personal Income, 1965 to 2005



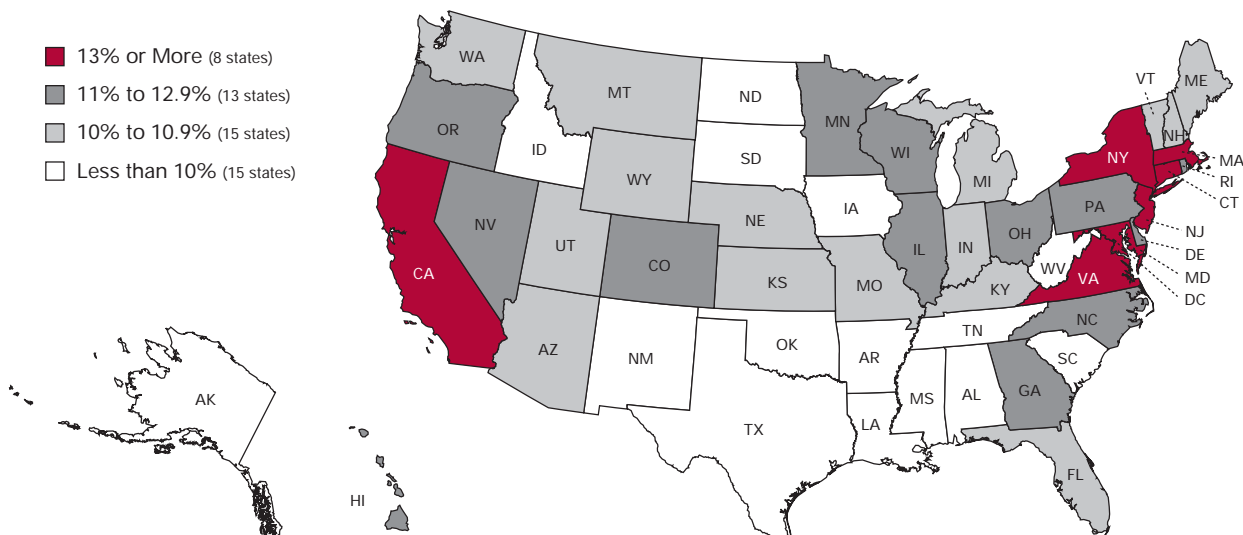
Source: IBRC, using Bureau of Economic Analysis data

Figure 6
Employer Contributions to Employee Pensions and Private Insurance as a Percent of Total Compensation, 1965 to 2005



Source: IBRC, using Bureau of Economic Analysis data

Figure 5
Personal Taxes as a Percent of Personal Income, 2005



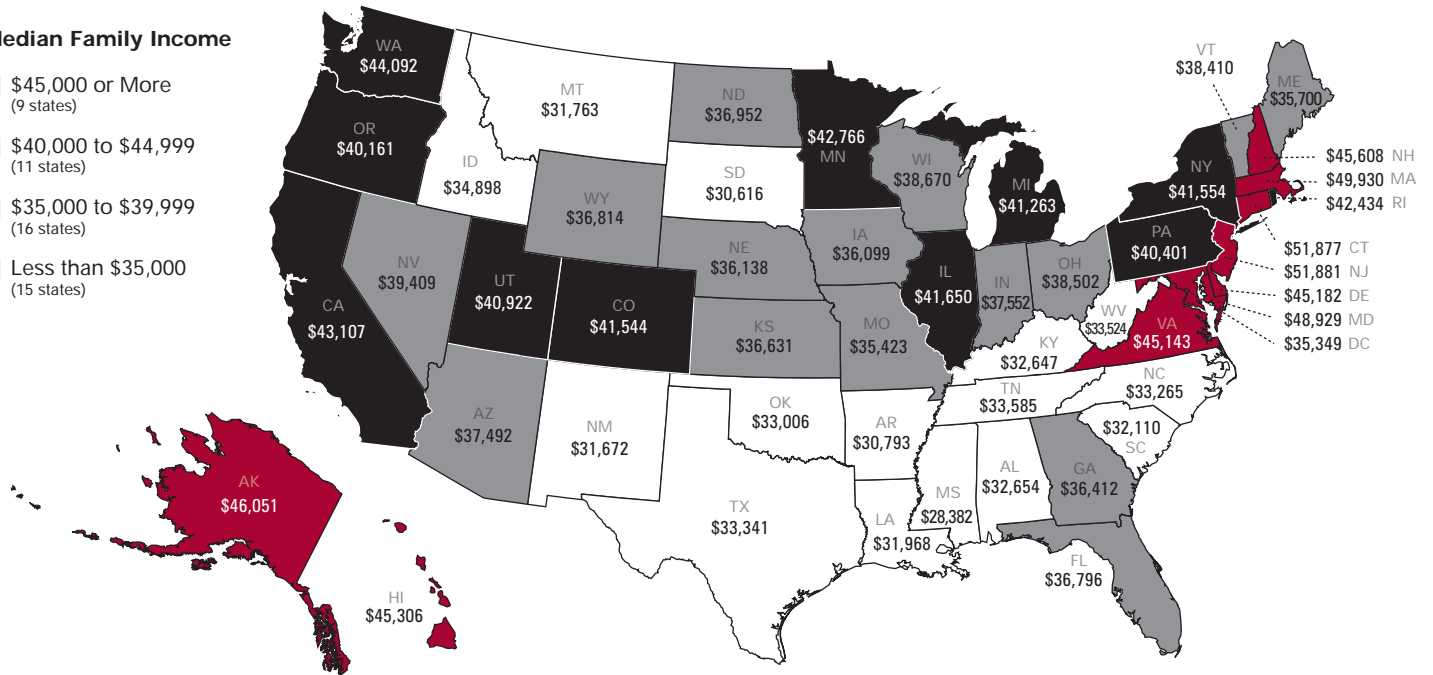
Source: IBRC, using Bureau of Economic Analysis data

Median Family Income in 2005

One-Earner Family

Median Family Income

- \$45,000 or More (9 states)
- \$40,000 to \$44,999 (11 states)
- \$35,000 to \$39,999 (16 states)
- Less than \$35,000 (15 states)

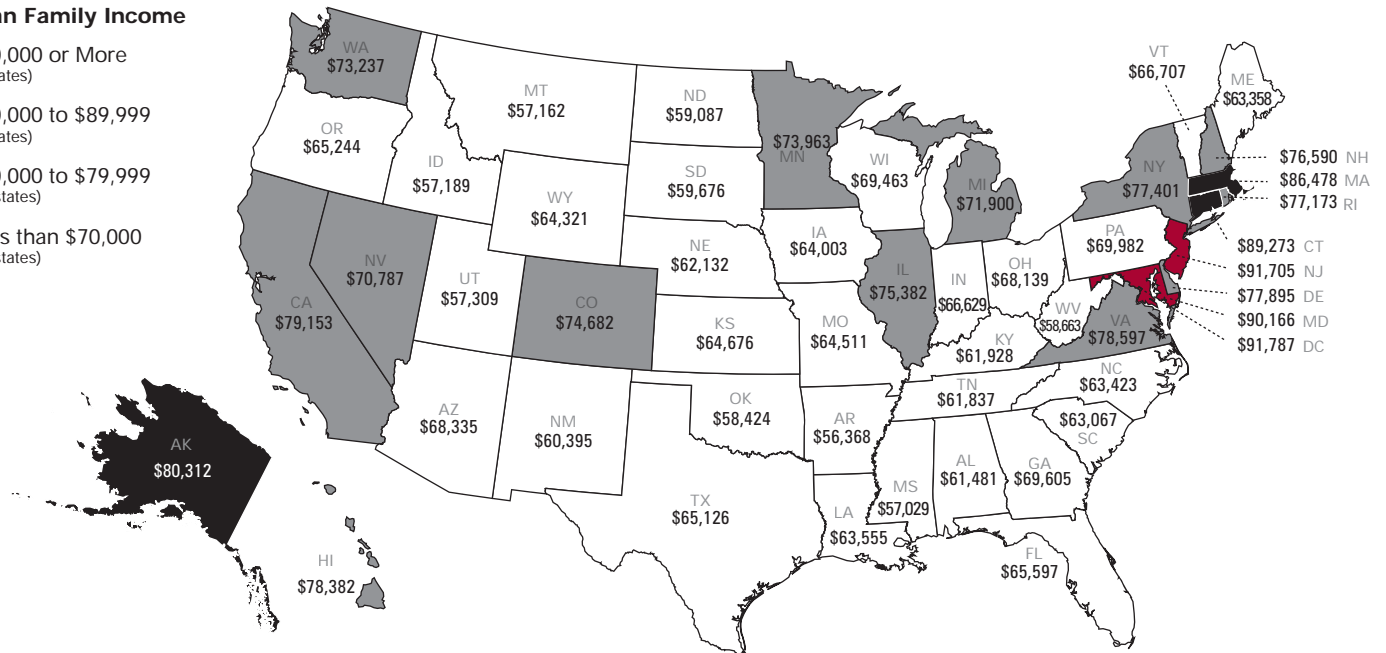


Source: IBRC, using 2005 American Community Survey data from the U.S. Census Bureau

Two-Earner Family

Median Family Income

- \$90,000 or More (3 states)
- \$80,000 to \$89,999 (3 states)
- \$70,000 to \$79,999 (13 states)
- Less than \$70,000 (32 states)



Source: IBRC, using 2005 American Community Survey data from the U.S. Census Bureau

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