

Fact Sheet for the June 2000 Employment Cost Index Release

Background. The Employment Cost Index (ECI) for June 2000 includes an expanded definition of nonproduction bonuses designed to improve the representation of compensation packages offered to employees. In addition to the traditional types of nonproduction bonuses, the ECI now includes hiring and referral bonuses. The following questions and answers are intended to give users additional information on this change and its anticipated effect on the ECI.

Question 1. What are nonproduction bonuses and what are the differences between the previous definition and the current definition of nonproduction bonuses in the ECI?

Answer. Nonproduction bonuses are cash payments given to employees that are not directly related to the productivity of the worker. They include Christmas or year-end bonuses, profit-sharing cash bonuses, suggestion bonuses, contract-signing bonuses, safety bonuses, and attendance bonuses. Nonproduction bonuses are included in the benefits portion of total compensation. (In contrast, a payment directly linked to sales or production is considered a production bonus and is included in wages and salaries.)

The definition of nonproduction bonuses has been expanded to include additional cash payments for hiring and referral bonuses. These bonuses are defined as follows:

Hiring bonus – payment made by an employer to induce an individual to accept employment with the company.

Referral bonus – payment given to an employee for recommending an applicant who is hired by the establishment.

In addition, the Bureau of Labor Statistics (BLS) conducted a review of retention bonuses to confirm that data are being captured correctly. Retention bonuses, defined as follows, were part of the previous ECI definition of nonproduction bonuses.

Retention bonus – payment made by an employer to an incumbent employee to retain that individual with the establishment.

Question 2. Why did the ECI add referral and hiring bonuses?

Answer. Referral and hiring bonuses were added to improve the measurement of the costs associated with hiring and retaining workers. The tight labor market in recent years has increased interest in these payments. As part of its ongoing research program, BLS regularly reviews and evaluates the components of compensation in the ECI.

Question 3. What are the costs of these bonuses?

Answer. BLS has conducted several tests of these three nonproduction bonuses in the past year. In December 1999, a test was conducted in conjunction with ECI collection to determine the prevalence of these plans. The results indicated that these plans were not widespread and that few workers received payments. Similarly, in March 2000, BLS collected the cost of the bonus plans. The March 2000 data indicated the cost is very small. The cost of payments for all workers in an occupation, not just those that receive payments, is calculated in the ECI. Since these bonus plans are not very prevalent, the additional cost to average total compensation for civilian workers was at most \$.01 per hour worked in March 2000.

Question 4. What is the effect on the ECI of including these new nonproduction bonuses?

Answer. A simulation of the March 2000 index incorporating these data indicated that civilian, private industry, and State and local government compensation estimates would have remained virtually unchanged from what was reported for the quarter ended March 2000.

BLS was unable to estimate the effect of these plans on the June 2000 data because costs were captured for all nonproduction bonuses rather than for the individual types of nonproduction bonus plans. Results comparable to the March data would be expected in June 2000. An upcoming article in *Compensation and Working Conditions* will summarize the March results and the effect on the ECI.

Question 5. How prevalent are these bonuses?

Answer. Referral, hiring, and retention bonuses are not very common. In the March 2000 data, only 9 percent of civilian workers had access to a referral, hiring, or retention bonus plan. Eighty-five percent did not have access to any of these bonus plans. (Data were unavailable for 6 percent of workers.) Referral bonus plans were available to about 7 percent of workers; hiring bonus plans to 3 percent; and retention bonus plans to 2 percent. (Note: Three percent of workers had access to multiple bonus plans.)

Question 6. What percentage of workers with access to a plan actually received referral, hiring, or retention bonuses?

Answer. BLS did not capture the percentage of workers who received a bonus in either the December 1999 or March 2000 tests. However, based on supporting documentation received in the test, it appears that few workers with access actually received a bonus during the quarters surveyed.

Question 7. Will the ECI be revised or re-based to reflect the changes in bonus payments?

Answer. No. There will be no additional revisions to the index to adjust for the inclusion of these bonus payments. BLS has no reliable method of revising the ECI to reflect these bonuses since data are captured for all nonproduction bonuses rather than for individual types of nonproduction plans. However, any effect on prior estimates is considered to be minimal.

Question 8. Where can I obtain more information on the effect of these bonuses on the ECI?

Answer. An article in an upcoming issue of *Compensation and Working Conditions* will provide additional information on the incidence and cost of these plans and will analyze the effect on the ECI caused by the addition of these bonuses.

**Bureau of Labor Statistics
U.S. Department of Labor**

July 27, 2000