

Morgan Stanley

# Measuring Compensation: Comments

**Richard Berner, Chief US Economist  
Morgan Stanley**

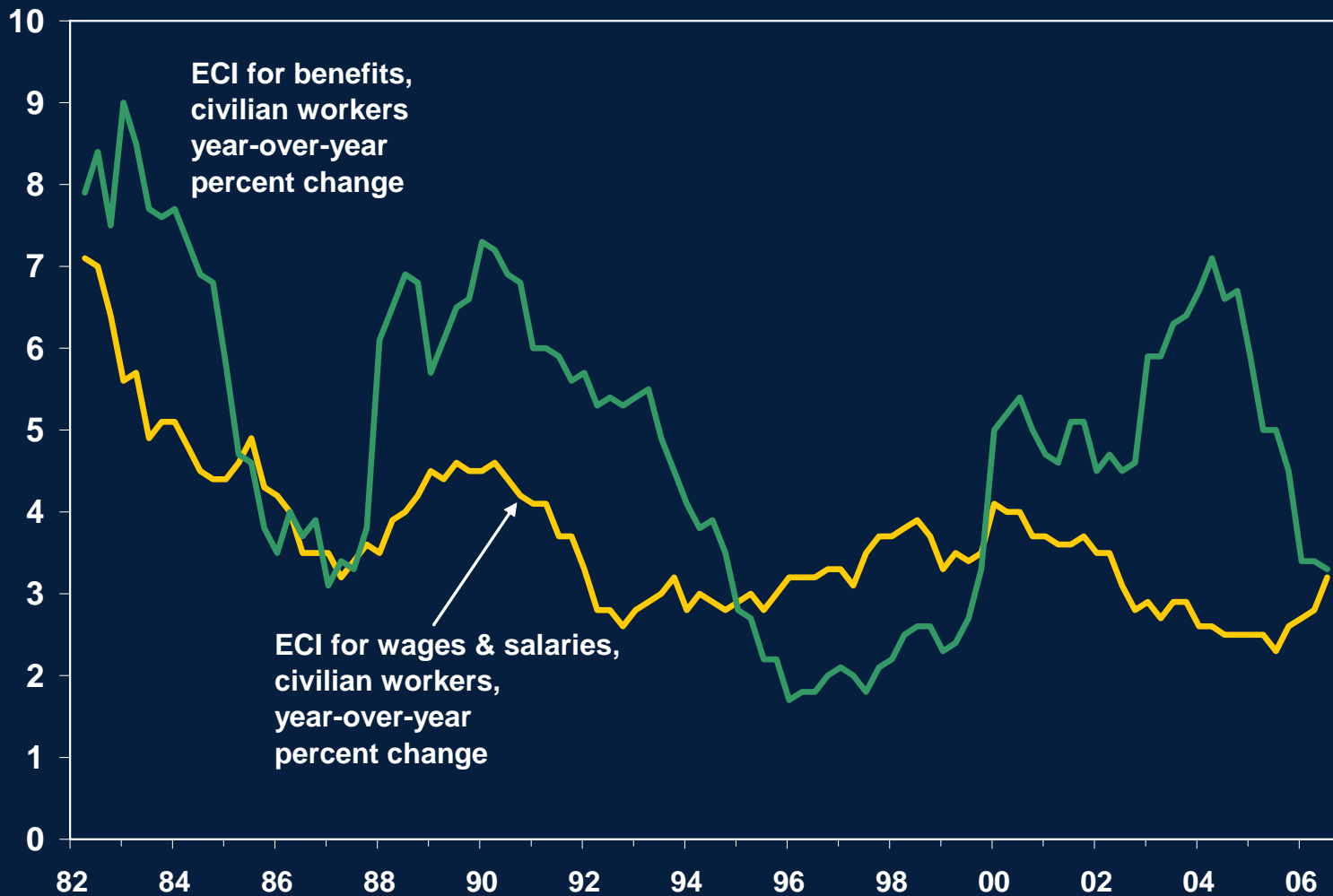
**BEA Advisory Committee Meeting  
November 3, 2006**

Morgan Stanley does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

# Key Issues

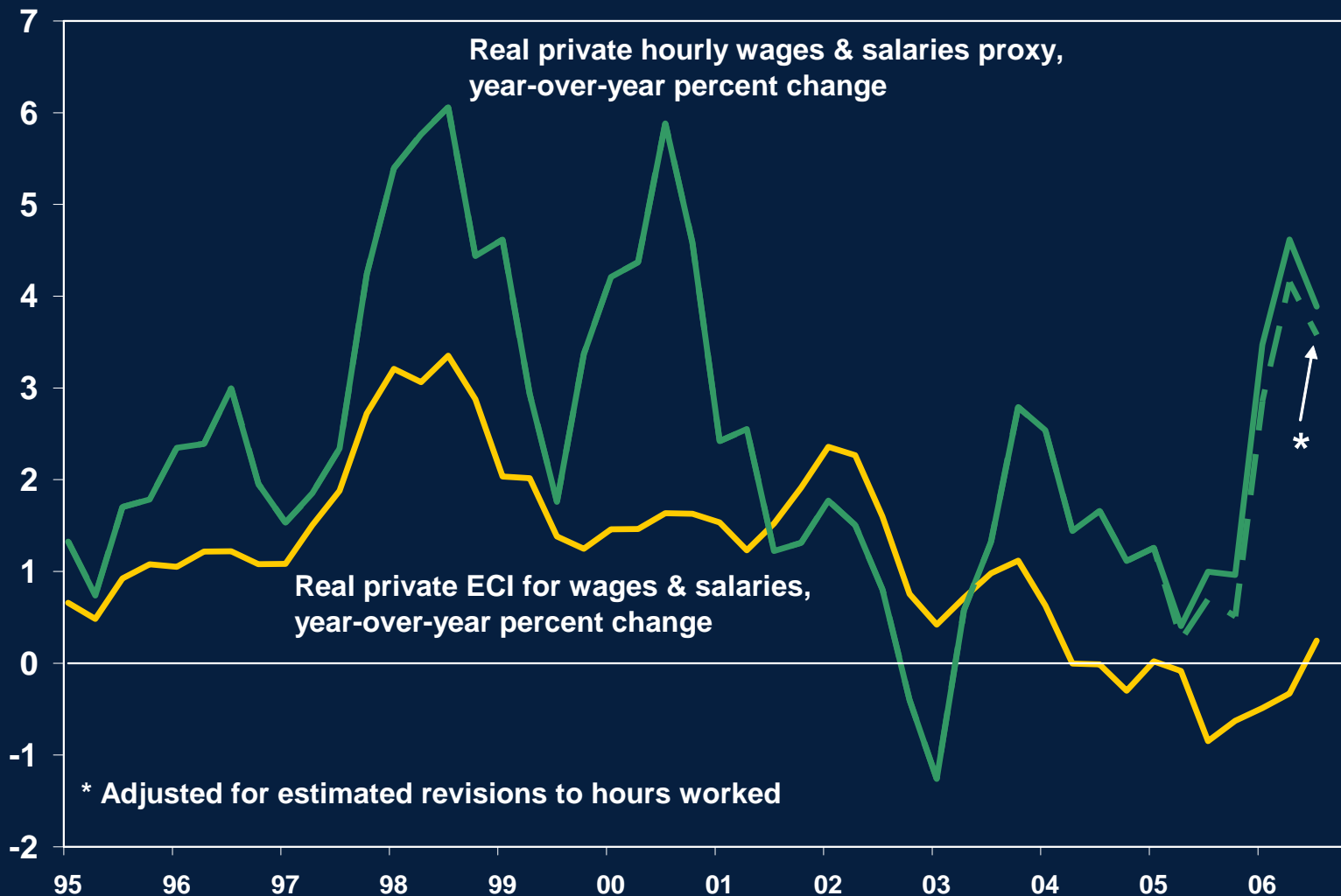
- **Needed: Reliable measures of wages and benefits**
- **Rapidly evolving workplace and compensation**
- **No standard for the plethora of wage measures**
- **Conceptual and measurement issues for benefits**
- **Hours at work = hours worked?**
- **Reliability in real time: Final source vs. initial estimation methods**

# Rapidly evolving workplace and compensation



Source: Bureau of Labor Statistics

# No standard for the plethora of wage measures



Sources: Bureau of Labor Statistics, Morgan Stanley Research

## No standard for the plethora of wage measures (cont.)

	National Compensation Survey, Employment Cost Index (ECI)	QCEW	OES	CES
Sample Size	11,000 private industry establishments (nonfarm), 800 state & local government establishments	Workers covered by State unemployment insurance (UI) laws and Federal workers covered by the Unemployment Compensation for Federal Employees (UCFE) program. Includes partial information on agricultural industries and employees in private households.	Data on wage & salary workers in nonfarm establishments (200,000). Excludes fishing and forestry industries and private household workers. Includes the US Postal Service and federal executive branch employment.	Based on 400,000 nonfarm business establishments. Production workers in the goods-producing sector and nonsupervisory workers in the service-providing sector.

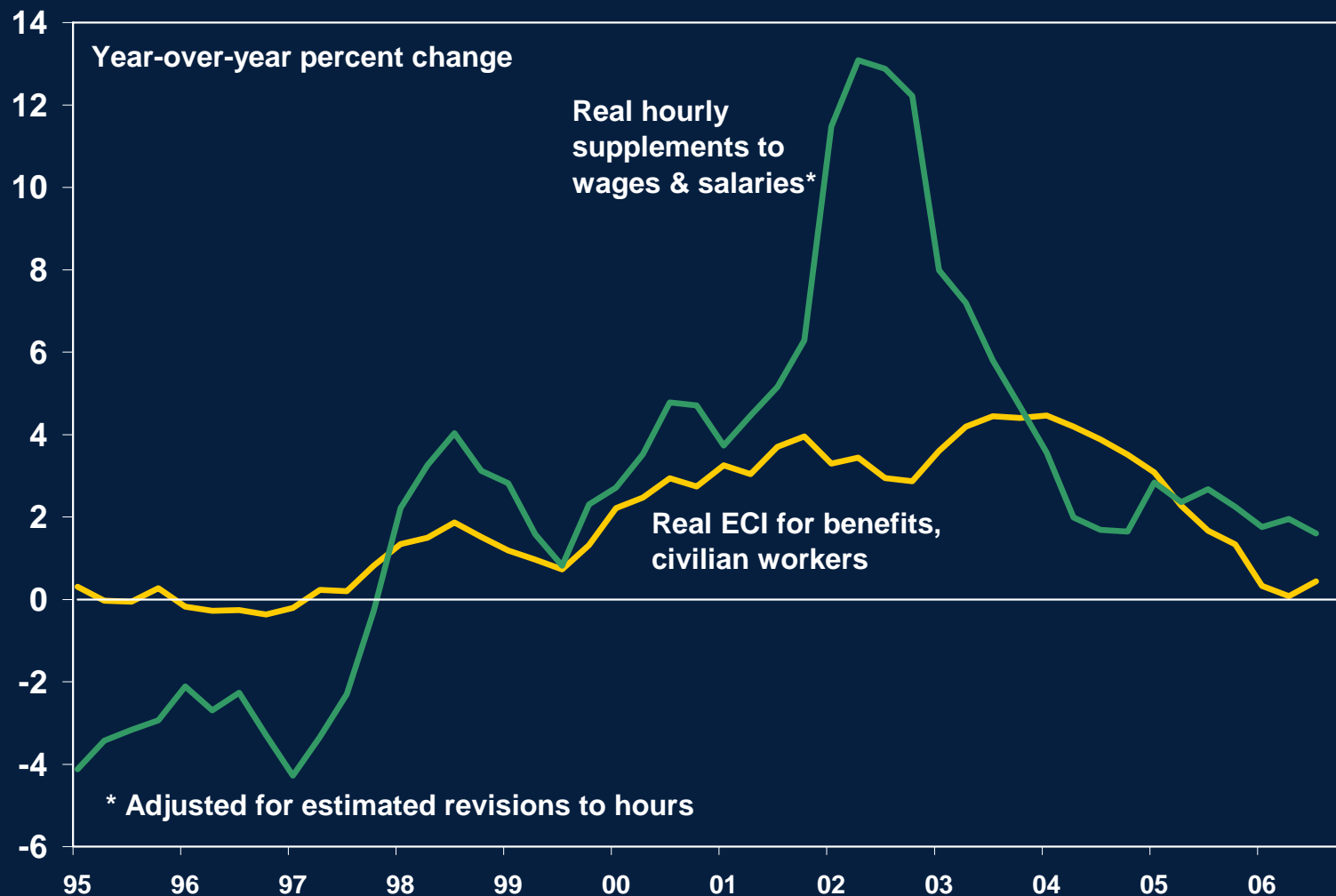
Sources: Bureau of Labor Statistics, Morgan Stanley Research

# No standard for the plethora of wage measures (cont.)

	<b>National Compensation Survey, Employment Cost Index (ECI)</b>	<b>QCEW</b>	<b>OES</b>	<b>CES</b>
<b>Wages &amp; Salaries</b>	Straight-time wage and salary rates are total earnings before payroll deductions, excluding premium pay for overtime and for work on weekends and holidays, shift differentials, and nonproduction bonuses such as lump-sum payments provided in lieu of wage increases. Production bonuses, incentive earnings, commission payments, and cost-of-living adjustments are included in straight-time wage and salary rates.	Wage measure includes pay for vacation and other paid leave time and overtime, bonuses, retroactive pay, tips, and the cash value of meals, lodging, and other payments in kind. Also includes stock options and in some States, employer contributions to DC plans, such as 401(k) plans.	Wages are straight-time, gross pay, exclusive of premium pay. Includes cost-of-living allowances, guaranteed pay, hazardous-duty pay, incentive pay including commissions and production bonuses, on-call pay, and tips. Excludes back pay, jury duty pay, overtime pay, severance pay, shift differentials, nonproduction bonuses, and tuition reimbursements.	Gross payrolls before deductions. Includes pay for overtime, vacations, holidays and sick leave paid directly by the firm. Bonuses, commissions, and other types of non-wage cash payments are excluded unless they are earned and paid regularly (at least once a month). Employee benefits paid by the employer, as well as tips and payments in kind, are excluded.

Sources: Bureau of Labor Statistics, Morgan Stanley Research

# Conceptual and measurement issues for benefits



Sources: Bureau of Labor Statistics, Morgan Stanley Research

# Conceptual and measurement issues for benefits (cont.)



Sources: Bureau of Labor Statistics, Morgan Stanley Research



# Conceptual and measurement issues for benefits (cont.)

	<b>National Compensation Survey, Employment Cost Index (ECI)</b>	<b>QCEW</b>	<b>OES</b>	<b>CES</b>
Benefits	Include paid leave (vacations, holidays, sick leave, and other leave), supplemental pay (premium pay for work in addition to the regular work schedule such as overtime, weekends, and holidays), shift differentials, and nonproduction bonuses (such as referral bonuses and attendance bonuses), insurance benefits (life, health, short-term and long-term disability, retirement, and savings benefits (DB & DC), and legally required benefits (Social Security, Medicare, and federal and state unemployment insurance))	Does not break out benefits	Does not break out benefits	Excluded

Sources: Bureau of Labor Statistics, Morgan Stanley Research

# Conceptual and measurement issues for benefits (cont.)

	National Compensation Survey, Employment Cost Index (ECI)	QCEW	OES	CES
Employment Weights	Fixed			
Includes stock options?	No	Yes		No
Includes self-employed?	No	Yes	No	No
Frequency?	Quarterly	Quarterly		Monthly
Collection period	Pay period including 12 <sup>th</sup> of month	Pay period including 12 <sup>th</sup> of month	Pay period including 12 <sup>th</sup> of month	Pay period including 12 <sup>th</sup> of month

Sources: Bureau of Labor Statistics, Morgan Stanley Research

## Reliability in real time: final source vs. initial estimates

- **Substantial revisions and uncertainty about their origin reduces confidence in estimates**
- **Wages and salaries: Withheld and OASDHI receipts gave advance waning**
- **Retirement: Estimates of funding gaps, mutual fund flows, 10Ks for restricted stock**
- **Health care: Consultants' surveys, estimates of "buydowns," NCS data**
- **Hours: Reliability of ES-202? Cross checking with other sources?**

# Other Important Disclosures

## Other Important Disclosures

This research report has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflict/policies](http://www.morganstanley.com/institutional/research/conflict/policies).

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks. Research is available through your sales representative or on Client Link at [www.morganstanley.com](http://www.morganstanley.com) and other electronic systems.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

This report is not an offer to buy or sell any security or to participate in any trading strategy. In addition to any holdings disclosed in the section entitled "Important US Regulatory Disclosures on Subject Companies", Morgan Stanley and/or its employees not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Morgan Stanley or associated persons.

Morgan Stanley & Co. Incorporated and its affiliate companies do business that relates to companies covered in its research reports, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, investment services and investment banking. Morgan Stanley sells to and buys from customers the equity securities of companies covered in its research reports on a principal basis.

Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

With the exception of information regarding Morgan Stanley, reports prepared by Morgan Stanley research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.

This publication is disseminated in Japan by Morgan Stanley Japan Limited; in Hong Kong by Morgan Stanley Dean Witter Asia Limited; in Singapore by Morgan Stanley Dean Witter Asia (Singapore) Pte., regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Dean Witter Australia Limited A.B.N. 67 003 734 576, a licensed dealer, which accepts responsibility for its contents; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of this publication in Canada; in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that this document has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc., which accept responsibility for its contents; and in the United Kingdom, this publication is approved by Morgan Stanley & Co. International Limited, solely for the purposes of section 21 of the Financial Services and Markets Act 2000 and is distributed in the European Union by Morgan Stanley & Co. International Limited, except as provided above. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International Limited representative about the investments concerned. In Australia, this report, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form.

**Additional information on recommended securities is available on request.**