

Press Release, February 10, 2014

**“Ontario must re-evaluate its public sector compensation levels”**

**Institute for Competitiveness & Prosperity finds that public sector employees are earning more than their private sector peers**

**Toronto** – In the era of sunshine lists and pension debates, there has been increasing public focus on compensation packages among public sector workers. In *The realities of Ontario’s public sector compensation*, the Institute for Competitiveness & Prosperity examines the evolution of public sector compensation in Ontario and provides insights as to how the province’s public workers are paid relative to their counterparts in the private sector. The Institute finds that overall, Ontario’s public workers enjoy considerable benefits in the form of higher wages and more generous pensions, and that these benefits have increased over time.

These labour costs have a significant impact on government spending. Public compensation, which the Institute defined as wages and pension benefits, accounts for 50 percent of Ontario’s budget. But the most concerning fact is that the difference between public and private sector wages for equivalent jobs, after a decade of steady increase, currently costs over \$1 billion a year for the government.

However, this is only half the story. The costly wage premium is an average and further research shows that, depending on the occupation, the public wage premium varies considerably. Managerial occupations earn low or negative premiums, or discounts, while clerical and administrative occupations currently earn a premium of 10 percent. This misalignment in compensation can create perverse incentives, as the government may find it challenging to attract talented individuals for senior decision-making roles. The Institute calls for a realignment in public sector wages to reduce the possible negative effects of this rank-dependent premium.

The second component of compensation, pension benefits, is currently the subject of heated debate. Ontario’s private and public sectors are mainly set apart by the fact that the proportion of workers who are members of employer-sponsored pension plans is much higher in the public sector. Although employer pension contributions are also higher in the public sector, this finding can be explained by differences in plan types and contribution structures across sectors. Pension plans are extremely important to the economy, since they mitigate the need for social assistance and help fund public and private capital expenditures.

The Institute’s results aim at transforming the debates into informed conversations that include actions from both public and private sectors to improve labour conditions and boost productivity. Changes in public sector compensation packages are not easily implemented. Yet, given the Institute’s findings, the government needs to be aware of the major issues presented by this study. Although there are no easy solutions, some important recommendations and public policy changes can be prescribed. It is up to the government to recognize the need for change and monitor the issue closely to ensure a fair and sustainable level of compensation for its employees.

“The data show that some of the fundamental elements of public sector compensation have changed. We need to make sure we are making that decision with a full understanding of the costs and benefits,” says Roger Martin, Chair of the Institute for Competitiveness & Prosperity. “We hope that this paper begins a substantive debate on public compensation and benefits.”

## THE REALITIES OF ONTARIO'S PUBLIC SECTOR COMPENSATION

### Questions

- Is there a premium for working in the public sector that cannot be explained by workers' qualifications?
- Are pension benefits more generous in the public sector than in the private sector?

### Findings

- Even after restricting the analysis to occupations that are well-represented in both the private and public sectors, the public sector wage premium currently costs the province over \$1 billion.
- Canada's four largest provinces have positive public sector wage premiums and these have increased considerably in the past ten years, with Ontario showing the highest growth.
- On average, public sector employees earn 5 percent more than their private sector counterparts in Ontario, the largest premium among the four biggest provinces in Canada.
- The public wage premium is not constant across occupations: clerical and administration positions have a high premium, while managerial positions have a lower salary than their private sector peers.
- Defined benefit plans and mandatory employee contributions have created higher public sector pension benefits.
- The Public sector exhibits a much higher proportion of workers covered by Registered Pension Plans (RPPs) than private sector for selected occupations.

### Recommendations

- Benchmark public compensation levels with that of comparable occupations in the private sector.
- Realign high and low ranked wage premiums to make sure we are valuing management positions.
- Emphasize the benefits enjoyed by public workers when negotiating with unions.
- Split the burden of funding adjustments for defined benefit plans between employer and unions through union fees.
- Improve labour mobility by facilitating pension plan portability within the private sector.
- Cap government pension contributions to match employee's contributions up to a maximum absolute value.

### About the Institute

The Institute for Competitiveness & Prosperity is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario's Task Force on Competitiveness, Productivity and Economic Progress. The Institute is supported by the Ontario Ministry of Economic Development, Trade and Employment. Working Papers published by the Institute are primarily intended to inform the work of the Task Force. In addition, they are designed to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity.

The complete report can be downloaded directly at:

[http://www.competeprosper.ca/work/working\\_papers/working\\_paper\\_19](http://www.competeprosper.ca/work/working_papers/working_paper_19)

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