

International concepts related to income from employment

Excerpts from the Website of the International Labour Organization

There are various concepts related to income from employment: wage rates, earnings, income related to employment, labour cost. They are the result of different uses and objectives; wages can be considered as the price of labour, as income from work, as the cost of remuneration for work or even as the cost of employing labour per se. Each of these relevant notions has its basis in a specific concept. All these concepts, however, are closely interconnected and are often considered together.

In general, the concept of **pay for work** relates to amounts of money in cash or its equivalent (if payment is in kind) that is received by persons during a period of time as a result of their participation in economic activities. The period of receipt is not necessarily the same as the period of work.

The concept of **wage rates** relate to basic prices of a unit of labour, before adding any bonuses for overtime, shift work or family allowance, and before deducting contributions for social security schemes and for advanced tax payments. Wage rates can be expressed in units of time, such as an hour, a week, a month, etc., or as piece rates. It is the smallest of all pay concepts and applies to workers in paid employment only.

The concept of **earnings** typically relates to the pay that employers provide directly to their employees on a regular basis during a specified reference period. It includes basic pay for time worked or work done as well as for time not worked, such as vacation, holidays and sickness time. In addition, it also includes other payments granted by the employer for various reasons such as: overtime work, unsocial hours or schedules, difficult work, regular bonuses and fringe benefits such as family allowances. On the other side, it will exclude all irregular bonuses even if provided by the employer. Earnings are, like time rates, recorded gross of social security contributions or tax deductions.

The concept of income related to **paid employment** is the most comprehensive measure of the level of remuneration of workers in paid employment. It includes, in addition to earnings, all irregular bonuses and payments and all social security benefits received from the employer directly or from a social security scheme, if they are related to employment. These include family and education allowances as well as sickness and maternity benefits. They also include benefits received by persons who are no longer in employment, such as unemployment benefits, pensions, invalidity benefits. All these social benefits will be part of income from paid employment only insofar as workers received them as a result of their participation in work activities. In countries which have general social security systems, whereby family and other allowances are provided independently of work activities, these allowances are not part of income related to paid employment. To avoid double counting these benefits are recorded net of contributions made by the worker to social security schemes.

The concept of **labour cost** relates the actual cost to employers of employing labour. It has an earnings component and a non-earnings component. The earnings component is similar to the concept of earnings, with some differences in the types of payments in kind that are considered and the way they are valued. The non-earnings component consists to a large extent of costs related to items which constitute payments in kind to workers, but which are valued from the employer's point of view, as costs incurred. Examples of these types of items are: housing, canteens, day care centres and similar expenditures. This component also includes all social security contributions and expenditures, vocational training expenses, and taxes on employment and payrolls, which are not part of earnings.

The concept of income related to **self employment** is the only concept that addresses the self employed. It is equal to the value of goods and services produced by the self employed, net of operating expenses (such as salaries paid, raw materials used, depreciation of machines and instruments and taxes paid), plus any salary received and social security benefits (net of contributions). Income related to self employment also includes benefits received by self employed persons who are no longer in employment, such as unemployment benefits, pensions, invalidity benefits. As with income related to paid employment, all these social benefits will be part of income from self employment only insofar as workers received them as a result of their participation in work activities.

Current Guidelines

Current guidelines on wage rates and earnings were adopted by the 12th ICLS in 1973. The Resolution concerning an integrated system of wages statistics provides guidelines on a coherent system of surveys to produce regular and complete statistics on wage rates and normal hours of work, and on earnings and hours actually worked (or hours paid for).

The concept of **wage rates** relates to the price of a unit of labour. The principle underlying this concept is that it relates to the amounts which may be associated with the job, not with the person or individual. It is similar in that sense to a price quotation because it is computed per unit of time or unit of work done.

The components of wage rates are the basic wages paid for normal hours of work, any cost of living allowances, and all other guaranteed and regularly paid allowances, such as housing or rental allowances. Basic wages may be provided in cash or in kind. Certain other payments associated with the individual person are, therefore, excluded from the calculation of wages rates - namely overtime payments, bonuses, family allowances, social security payments, etc.

Two different types of wage rates exist and are referred to as time rates and piece rates. Time rates represent the basic wages paid for normal periods of work which are related to an appropriate or specific time unit. The fixing of piece rates is done in relation to outputs and are referred to differently, depending upon the reference to how the type of payments is set. Minimum or statutory rates are those which are fixed by national laws or regulations. Standard rates are so-called because they are fixed by arbitral awards or

within the framework of collective agreements or other agreements. Rates actually paid are the piece rates which the employer effectively paid.

Earnings are defined as “the remuneration in cash and in kind paid to employees, as a rule and at regular intervals, for time worked or work done, together with the remuneration for time which was not worked.” The components of earnings are:

- **all direct wages and salaries for time worked or work done which are paid in cash:** including pay for normal-time work, premium pay for overtime and holiday work, premium pay for night work, shift work or other forms of work schedule, all forms of incentive pay such as production bonuses, any other type of regularly paid bonuses, family allowances which are paid directly by employers and not from a social security institution or other government fund, cost-of-living or dearness allowance and house-rental allowances;
- **remuneration for any time not worked which is also paid in cash:** including annual vacation and other paid leave including long-service awarded leave, payment for public holidays and other recognized holidays, other time-off granted with pay such as study leave, leave for family reasons, trade union or civic duties. Because this remuneration covers cash payments, also included are, for example, payment to workers of travel tickets for annual and other vacations. Severance and termination pay, however are excluded because they are considered social security payments which are not regular;
- **any cash bonuses and gratuities,** which are payments concerning year-end, seasonal and other one-time bonuses, share of profits bonuses, additional payments in respect of vacation which are not covered under cash remunerations for time not worked that are supplementary to such normal vacation pay, as well as other bonuses and gratuities, like thirteenth and fourteenth month salaries, year-end bonuses. These do not, however, include special payments made as a reward for innovative ideas or suggestions adopted to improve the working methods; and finally
- **any payments made in kind,** which may consist of food and drink or lunch vouchers, energy such as fuel for heating or lighting in the form of coal, coke, electricity, gas or others, free or subsidized housing at its imputed rental value, as well as other payments in kind which could include footwear, clothing, work uniforms, free goods or reductions in the price of company products or services, use of company cars, among others. Free or subsidized medical care and similar payments are excluded from the notion of payments in kind because they are social security payments.

As a rule, earnings relate to *gross earnings*, that is, to the amounts paid before any deductions are made by employers for their employees' income taxes and their contributions for health insurance, unemployment schemes, pension funds, union membership, etc. Once these deductions have been subtracted the resulting amounts, known variously as *net earnings*, *take-home pay* or *disposable earnings*, can be considerably less than the gross earnings. If these contributions or taxes are deducted directly by the employer, the worker never actually receives the amount of gross earnings and may not even be aware of their gross earnings. Thus, persons with the same gross earnings may receive considerable different net earnings, depending on their marital status and, number of dependents.

Current guidelines on income related to paid and self employment were adopted by the 16th ICLS in 1998. The Resolution concerning the measurement of employment-related income also improved the description of existing income components, most notably the remunerations in kind.

Income related to paid employment covers, in addition to all earnings components, (a) all irregular bonuses as well as (b) all social security benefits received either from the employer or from a private or public social security scheme. Such benefits include payments to cover income loss due to sickness, maternity and accident benefits, the reimbursement of medical expenses as well as education allowances; it also includes payments linked to past employment such as unemployment, retirement and invalidity benefits and survivor's pensions. All these benefits need to be recorded net of workers' contributions to social security schemes.

Valuation of payments in kind.

There are two approaches by which an evaluation of the value of payments in kind can be carried out: either by taking the retail market prices of the objects to represent the value accrued to employees, or by imputing the cost to the employer or producer's price which, because these may fluctuate less than market prices or remain more constant, is an easier method for the employer. In the case of wage rates, the latter method should be used.

References:

Resolution concerning an integrated system of wages statistics:

http://www.ilo.org/global/What_we_do/Statistics/standards/resolutions/lang--en/docName--WCMS_087496/index.htm

Resolution concerning the measurement of employment-related income:

http://www.ilo.org/global/What_we_do/Statistics/standards/resolutions/lang--en/docName--WCMS_087490/index.htm