



NATIONAL STATISTICS INSTITUTE

Annual Labour Cost Survey: Methodology

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1. Introduction

The Annual Labour Cost Survey is an annual statistical operation that completes the results obtained every three months in the Quarterly Labour Cost Survey (QLCS), providing an annual perspective of these results.

The reference period for the results of the QLCS is the calendar quarter and the reference period for the information requested in the questionnaire is a calendar month. There are a number of cost entries that are not registered monthly in pay slips, as their expiry date is greater than a month. For this reason, an annual module has been created called the Annual Labour Cost Survey, whose objective is to collect the labour cost entries that are not registered in the quarterly questionnaires of the year that falls immediately before.

These labour cost components have been collected using a questionnaire that is an appendix to the quarterly questionnaire since 2002, obtaining annual results since 2001.

2. Objectives

The main objective of the Annual Labour Cost Survey is to understand average annual labour cost levels per worker detailing the main components of the labour cost:

- Cost of wages
- Obligatory contributions to Social Security
- Voluntary contributions
- Direct corporate contributions
- Compensation for dismissal
- Expenditure on vocational training
- Expenditure on transport
- Corporate expenditure
- Other expenditure
- Subsidies

3. Scope, coverage and reference period

Population scope

This includes all the *Contribution Accounts* regardless of their size contained in the General Social Security System and in the Special Coal Miners System.

Geographical scope

The geographical scope covers the whole national territory, with results broken down by Autonomous Communities. The information corresponding to Ceuta and Melilla is provided together with the information for Andalucía.

Sectorial coverage

The contribution accounts whose economic activity is classified into the three large economic sectors are researched: Industry, Construction and the Services sector, in particular, those work places with economic activities included in sections C to K and M to O of the NCEA-93:

NCEA93 ECONOMIC ACTIVITY

C	-----	Extractive industries
D	-----	Manufacturing
E	-----	Production and distribution of electricity, gas and water
F	-----	Construction
G	-----	Trade; repair of motor vehicles, motorcycles and mopeds and personal and household goods
H	-----	Hotels and restaurants
I	-----	Transport, storage and communication
J	-----	Financial intermediation
K	-----	Real estate, renting; business activities
M	-----	Education
N	-----	Health and veterinary activities, social services
N	-----	Other social activities and services provided to the community; personal services

The maximum breakdown level of the economic activity is the NCEA-93 division level. Specifically, 54 activity divisions are analysed. The following sections are excluded: Agriculture (A), Fishing (B), Public Administration, Defence and Social Security (L), Domestic service (P) and Extra-territorial bodies (Q).

Reference period

The reference period is the calendar year.

4. Definitions

4.1 Labour costs

Labour cost

Labour cost is defined as the cost which the employer incurs through use of the labour factor.

The gross labour cost is the sum of all the cost components. By deducting the various subsidies received from the Public Administrations, the net cost is obtained (net labour cost).

The labour cost includes a wide range of entries:

Cost of wages

Includes all financial payments made to workers in cash or in kind for the professional provision of work for others that rewards effective work, whatever the method of remuneration or the rest periods accounted for as work.

Wage payments include: *The base salary, salary supplements, overtime and/or complementary payments, extra bonuses, salary in kind and payments into a workers savings plan.*

Obligatory contributions to Social Security

Obligatory Contributions to Social Security are the legally established contributions that employers make to the Social Security System in favour of their employees in order to cover the services the system sets out and which are those arising from illness, maternity, work accident, disability, retirement, family, survival, unemployment, vocational training, wage guarantee, or any other contingency covered by the Social Security System.

Voluntary contributions

Include employer contributions to private social security systems and other insurance bodies with the aim of covering, improving or complementing the payments set out by the Social Security System. These contributions are not obligatory and are usually set out in collective agreements via negotiation. Only employer contributions are considered. Including:

- ***Pension plans and funds***, which include the total amount of contributions that the company or pension plan or fund promoter makes to banks, pension funds and/or plans for their workers, who are contributors to the plan or fund. The contributions can be clearly defined, and in this case, the benefits to be received by the beneficiaries will be predetermined. These can be in absolute terms or according to wage, seniority, supplements or other points of reference. A mixed criterion can also be given, which combines the two aforementioned criteria. The pension plan and fund contributions cover all or some of these eventualities: Retirement, total or permanent invalidity in terms of the usual job, or absolute and permanent invalidity in terms of all jobs, and the death and survival of the contributor or beneficiary.

- **Health, maternity or accident insurance** are amounts paid by the employer to private medical companies as payment for health care coverage for workers and their families that improve or increase the INSALUD coverage. Direct payments to workers for any of these causes are not included.
- **Other insurance** includes the total amount of payments made by the company for other voluntary corporate benefits that are not paid directly to workers, such as group life insurance premiums, unemployment insurance and other insurance not previously mentioned.
- **Other contributions:** Contributions made by the company to institutions such as Labour Foundations, whose objective is to provide services to workers (for example contributions to the construction labour foundation: FLC,FLC1).

Direct corporate contributions

These are payments made by the company directly to the worker or their family, or to a former worker in order to help them in particular circumstances and to complement the specific corporate contributions. Including:

- **Temporary Incapacity (TI)**, which includes the total of the following two payments: *Temporary Incapacity benefit payments (TI)*, which are payments made as part of the TI benefit that the employer pays during the first 15 days of sick leave and that are not covered by Social Security. *TI supplement* that includes the amounts added by the employer, either voluntarily or in accordance with the collective agreement, to the TI payments and which are paid by either the employer or the Social Security. These amounts help make up the affected worker's salary to 100% or less of their normal salary.
- **Unemployment** is the payment made voluntarily by the employer as a supplement to the INEM's benefit for workers affected by temporary suspension or a reduction in working hours in the case of a labour force adjustment plan, so that they can retain their wages or part of them.
- **Retirement** is an amount paid to former workers that aims to complement the social security pension or private insurance and which is either paid just once, or periodically with a view to mitigating, in part or in whole, the difference between the salary prior to retirement and the pension received. Also included in this section are payments for "voluntary redundancy (with incentive payments)".
- **Death and survival** are the amounts paid directly by the company to a surviving spouse and to the children of the dead worker, as a supplement to the widows and orphans' subsidies and pensions.
- **Invalidity or disability** are the amounts paid by the company to complement workers' or former workers' invalidity or disability subsidies or pensions. These can be paid just once or periodically.

- **Family assistance** are amounts paid directly to workers affected by certain family eventualities, such as marriage, birth or other similar events.
- **Medical assistance** is the monetary payment received by workers directly from the company that corresponds to costs incurred by workers in relation to health care that falls outside the sphere of social security.

Compensation for dismissal

This includes the total amount paid for dismissal and end of contract, as well as wages received during the dismissal process, which the employer must pay in this situation (process wages). Both compensation for individual dismissal and compensation for group dismissal are considered here. Payments made as a result of pending obligations, such as wages owed, holidays not taken, (settlements) etc are excluded, as these amounts are considered delayed payments and compensation for the end of a contract and are included in other expenditure.

Expenditure on vocational training

Vocational training costs are those paid for providing knowledge and training in vocational techniques to workers. This training is linked to the job and is of interest to the company. Costs incurred from assisting workers who are undertaking regulated training will not be considered. The following are considered to be vocational training costs: maintenance costs, adaptation and equipping of buildings and facilities used for training, participation in courses, fees and allowances of external trainers (never of workers from the company), training materials and the amount paid to the training companies, but always in gross terms without deducting subsidies and aid received from the INEM or other public training organisations.

Expenditure on transport

Transport costs are costs incurred by the company for the free or reduced cost transport of employees from their homes to their place of work. Costs relating to maintenance staff and drivers are not included when these workers belong to the company's staff, nor the amounts paid directly to workers as compensation when they use transport not belonging to the company.

Corporate expenditure

Corporate expenditure is the ensemble of costs of a varied nature with the aim of improving the quality of life of workers via corporate activities driven by working groups. Expenditure derived from the maintenance or adaptation of canteens for employees' use, as well as indirect payments made to these employees in the form of meal tickets, maintenance and repair expenses of buildings and facilities used for nurseries, sporting and cultural activities and recreational services. The cost of personnel in charge of these services when they belong to the company are not included.

Other expenditure

This includes compensatory payments (currency devaluation, small tools, etc), compensation for end of contract, selection of staff, etc. Similarly, costs not included in other sections, such as those incurred in renewing work wear and work tools are included.

Allowances and travel expenses do not form part of the labour cost, given that they are necessary for the productive process and therefore constitute an intermediate use.

Note:

In the 2002 Annual Labour Cost Survey, allowances and travel expenses have been requested for the first time with the aim of correcting their effect on the quarterly data affected by their inclusion in pay slips.

In the 2005 Annual Labour Cost Survey, voluntary contributions have been requested for the first time: Other contributions (FLC, FLC1....).

4.2 Subsidies:

Subsidies are the ensemble of refunds received by the employer from public organisations. They are negative and therefore reduce the gross labour cost. Including:

- **Contracting subsidies**, which are amounts received directly by the company in the form of a subsidy for the creation of employment and only for this concept.
- **Subsidies in Social Security Contributions**, which include subsidies derived from reductions and discounts in the contributions made to the Social Security.
- **Vocational training subsidies** are the total amount received by the company from the INEM or any other public organisation (except Social Security) as payment for vocational training for the company's staff.
- **Tax deductions** are the amounts that persons liable for Corporate Tax and Income Tax, who carry out business, professional or artistic activities, deduct from the aforementioned taxes for the creation of employment.

5. Survey design

Information in the Annual Labour Cost Survey with reference to year t is requested from all contribution accounts in the QLCS from the third quarter of year t+1. Therefore, the survey's sampling design and the estimators used to obtain the

results of the questionnaires are similar to those in the QLCS (for more information, see the QLCS methodology):

- It is a random stratified sample with optimum allocation where the sampling units are the contribution accounts. The stratification criterion is created considering three variables: the Autonomous Community (17 in total considering Ceuta and Melilla together with Andalucía), economic activity (NCEA-93 division, 54 divisions in total) and the size of the units (8 strata or size groups).
- Separated ratio estimators are used, taking the number of workers in the Social Security Directory of Contribution Accounts as the ancillary variable.

The reason for collecting annual information in the third quarter is that companies end their financial years in June and it is very likely that companies have not quantified the costs requested until this point.

6. Obtaining results

The annual labour cost estimations per worker for the year t are obtained in the following way:

1. Annual estimations of the labour cost components collected quarterly in the QLCS, such as the annual average of the four quarters of year t multiplied by 12 months, are calculated.

Thus, and taking into account that in the annual questionnaire these components are not collected, the following are obtained:

- Obligatory contributions to Social Security
- Compensation for dismissal

2. Variable estimations in the annual questionnaire for year t are obtained.

Thus, and taking into account that they are not collected in the quarterly ELCS questionnaire, the following are obtained:

- Voluntary contributions
- Expenditure en vocational training
- Expenditure en transport
- Corporate expenditure

3. The other cost entries are obtained as the sum of the annual estimations of the variables collected in part by the QLCS (point 1) and from the annual results of the same variables collected in part from the annual module (point 2):
- The wage cost as the sum of the total wage cost from the QLCS and payments to savings plans in the annual questionnaire.
 - Direct corporate payments as the sum of the same concept in both surveys.
 - Other expenditure as the sum of other non-wage payments from the QLCS and other expenditure from the annual questionnaire.
 - Allowances and travel expenses do not form part of the labour cost, as they are necessary for the productive process and constitute an intermediate use. However, it is common for monthly pay slips to include this entry and it is not possible to eliminate it from the QLCS. Since 2003 and using the data from the 2002 annual module, the annual data is estimated and it is corrected in those units that are not included quarterly.
 - Subsidies as the sum of payments and subsidies from Social Security contributions in the QLCS and contracting, vocational training subsidies and tax deductions from the annual questionnaire.