

INSTITUTO NACIONAL DE ESTADISTICA



# **Annual Labour Cost Survey**

## **Methodology**

Madrid, 2019.

# Index

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<b>Introduction</b>	<b>3</b>
<hr/>	
<b>1 Objectives</b>	<b>4</b>
<hr/>	
<b>2 Scope, coverage and reference period</b>	<b>5</b>
<hr/>	
<b>2.1 Population scope</b>	<b>5</b>
<hr/>	
<b>2.2 Geographical scope</b>	<b>5</b>
<hr/>	
<b>2.3 Coverage by sector</b>	<b>5</b>
<hr/>	
<b>2.4 Reference period</b>	<b>5</b>
<hr/>	
<b>3 Definitions</b>	<b>6</b>
<hr/>	
<b>3.1 Labour costs</b>	<b>6</b>
<hr/>	
<b>3.2 Subsidies</b>	<b>9</b>
<hr/>	
<b>4 Survey design</b>	<b>11</b>
<hr/>	
<b>5 Obtaining results</b>	<b>12</b>
<hr/>	

# Introduction

The Annual Labour Cost Survey (ALCS) is an annual statistical operation that completes the results obtained quarterly in the Quarterly Labour Cost Survey (QLCS), obtaining an annual perspective thereof. In the QLCS, the reference period of the results is the calendar quarter, and the reference period of the information requested in the questionnaire is the calendar month. There is a series of cost figures that can be either registered or not monthly in the payslips, given that their expiry period is longer than one month. As a result, an annual module, the Annual Labour Cost Survey, has been created, and its purpose is to collect the labour cost figures not registered in the quarterly questionnaires from the year immediately prior.

# 1 Objectives

The fundamental objective of the Annual Labour Cost Survey is to ascertain the annual levels of the average Labour cost per employee, providing the main components of labour cost in detail:

- Wage cost.
- Obligatory Social Security contributions
- Voluntary contributions
- Direct corporate contributions
- Compensation for dismissal
- Expenditure on vocational training
- Transport expenses
- Corporate expenses
- Other costs
- Subsidies

## 2 Scope, coverage and reference period

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### 2.1 Population scope

This covers all of the *Contribution Accounts*, regardless of their size, included in the General Social Security System, in the Special Scheme for Coal Miners and in the Special Scheme for Seafarers whose economic activity is sea transport.

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### 2.2 Geographical scope

The geographical scope encompasses the entire country, with a breakdown of results by Autonomous Community. The information corresponding to Ceuta and Melilla is provided jointly with that corresponding to Andalucía.

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### 2.3 Coverage by sector

It studies the contribution accounts whose economic activity is classified in the three large sectors: Industry, Construction and Services, specifically those centres with economic activities included in sections B to S of CNAE-09:

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<b>CNAE-09</b>	<b>Economic Activity</b>
B	Mining and quarrying industries
C	Manufacturing industry
D	Supply of electrical energy, gas, steam and air conditioning
E	Water supply, waste management and decontamination activities
F	Construction
G	Wholesale and retail trade; repair of motor vehicles and motorcycles
H	Transport and storage
I	Accommodation
J	Information and communications
K	Financial and insurance activities
L	Real estate activities
M	Professional, scientific and technical activities
N	Administrative and support service activities
O	Public Administration and Defence; Compulsory Social Security
P	Education
Q	Health and social services activities
R	Arts, recreation and entertainment activities
S	Other services

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The following sections are excluded: Agriculture, livestock breeding, forestry and fishing (A), Private households with employed housekeeping staff (T) and Activities of extraterritorial organisations and bodies (U).

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### 2.4 Reference period

The reference period is the calendar year.

# 3 Definitions

## 3.1 Labour costs

### Labour cost

This is defined as the cost taken on by the employer for the use of the working factor.

The gross labour cost is the sum of all of the cost components. By deducting the different subsidies received from the Public Administrations, we obtain it in net terms (net labour cost).

The Labour Cost comprises a large set of figures:

### Wage cost

This includes all of the economic payments, whether in cash or in kind, paid to employees for the professional provision of their labour services, employed by others, whether paying effective work, whatever the form of remuneration, or the rest periods accounted for as work.

Wage payments include: *the Base Salary, Wage Supplements, Payment for Overtime and/or Supplementary Hours, Extra Bonuses, Salary in Kind and Payments for employee savings plans.*

### Obligatory Social Security contributions

These are the legally established contributions that employers make to the Social Security System in favour of their employees, to cover the services that the System establishes, and which are those derived from illness, maternity, work-related accident, disability, retirement, family, survival, unemployment, vocational training, wage guarantee, or any other contingency covered by the Social Security System.

### Voluntary contributions

This includes the contributions of the employer to private social security circuits or other insurance entities, for the purpose of covering, improving or supplementing the contributions established by the Social Security system. These contributions are not obligatory, but rather are usually set out in collective agreements via negotiation. Only employer contributions are considered. The most noteworthy of these are:

- **Pension plans and funds**, which include the total amount of contributions that companies, pension Plan or Fund promoters make to banks, pension funds and/or plans for their employees, who are thus the contributors to the Plan or Fund. The systems may have a defined contribution or defined benefit, and in this case, the benefits to be received by the beneficiaries shall be predetermined, and may be in absolute terms or depend on the wages, seniority, supplements or other references. 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 or permanent invalidity in terms of all jobs, and the death and survival of the contributor or beneficiary.
- **Health, maternity or accident insurance** are the amounts paid by the employer to private medical societies as payment for health care coverage

for employees and their families that improve on or increase the coverage provided by the official health system. Direct payments to workers for any of these causes are not included.

- **Other plans or insurance** includes the total amount of payments made by the company for other voluntary corporate benefits that are not paid directly to the employees, 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 the Labour Foundations, whose objective is to provide care services to workers (for example, contributions to the labour function of construction: FLC,FLC1).

### **Direct corporate contributions**

These are the payments that the company makes directly to the employee or to her/his family, and also to the former worker, in order to assist her/him in certain circumstances, and as a supplement for certain social benefits. Worth noting of these are:

- **Temporary Incapacity (TI)**, which includes the total of the following two payments: *Temporary Incapacity (TI) benefit payments*, which are payments made as part of the TI benefit that the employer pays during the first 15 days of leave of absence, due to being the responsibility of the employer and not covered by Social Security. *TI supplement*, which includes the amounts added by the employer, either voluntarily or in accordance with the collective agreement, to the TI benefits, and which are paid either by the employer or by Social Security. These amounts help make up the TI-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 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 supplement the Social Security - or private insurance - retirement pensions, and which is paid either just once, or periodically, with a view to mitigating, in part or in whole, the difference existing between the wages prior to retirement and the pension received for said wages. 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 deceased worker, as a supplement to the widowhood and orphanhood subsidies and pensions.
- **Invalidity or disability** are the amounts paid by the company to supplement the invalidity or disability subsidies or pensions of the employees or former employees. These can be paid either just once or periodically.

- **Family assistance** are the 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 the expenditure incurred by workers in relation to the health care received that falls outside the scope of Social Security.

From 2018, the following questions are requested separately in the questionnaire:

- Benefits and supplements due to temporary incapacity (TI)
- Supplements to benefits for maternity, paternity, risk during the pregnancy and natural lactation
- Supplements to unemployment benefit
- Other direct social benefits

### **Compensation for dismissal**

This includes the total payments made for dismissal and cancellation of contract, as well as the wages ceased to be paid during the processing of the dismissal and which the employer must pay in this situation (processing wages). It considers both compensation for individual dismissal and compensation for group dismissal. It excludes the amounts paid due to pending obligations, such as wages due, holidays not taken, etc. (settlements), since these amounts are considered to be delayed payments, and the end-of-contract payments are included in other expenses.

### **Expenditure on vocational training**

These are the expenses paid for providing knowledge and training in vocational techniques to employees; this training is linked to the job and is of interest to the company. Costs incurred from assisting employees who are undertaking regulated training will not be considered. The following are considered to be vocational training costs: maintenance costs, adaptation and equipment 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 tools, and the amount paid to the training companies, but always in gross terms, without deducting subsidies and aid received from the INEM, Public Employment System, or other public training organisations.

### **Transport expenses**

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

### **Corporate expenses**



These are the ensemble of costs of a varied nature, whose aim lies in improving the quality of life of workers, via corporate activities driven by working groups. Worth noting are those expenses derived from the maintenance or adaptation of canteens for employee use, maintenance and repair expenses of buildings and facilities used for nurseries, sporting and cultural activities and recreational services. The costs of the personnel in charge of these services, when they belong to the company, are not included.

### **Other costs**

These include compensatory payments (currency devaluation, wear and tear of tools, etc.), end-of-contract payouts, selection of personnel, etc. Likewise, those costs not included in other sections, such as direct payments made to workers for renewing work wear and work tools, are included.

Allowances and travel expenses are not considered part of the labour cost, granted that they arise as a necessity of the productive process, thereby constituting an intermediate consumption.

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## **3.2 Subsidies**

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

- **Contracting subsidies**, which are the 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 those subsidies derived from the reductions and discounts in the contributions made to the Social Security.
- **Vocational training subsidies** are the total amount received by the company from the SPEE or any other public organisation (with the exception of Social Security), as payment for vocational training for the company staff.
- **Tax deductions** are those 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.

Beginning with the results for the year 2010, this includes a section called "**Regulation of labour relations**", aimed at ascertaining the degree of regulation of the labour relations of the contribution centre targeted by the questionnaire. This is divided, in turn, into two parts intending to verify, on the one hand, its sources and its geographical and functional scope, and on the other hand, the possible exceptions in its application.

- **The Form of regulation of labour relations**, includes the type of norm on which the regulation has been developed, highlighting the form of the

collective agreement over any other that might be agreed upon. When the pact has been made by collective agreement, it is asked to indicate the scope thereof, distinguishing between:

- **National sectoral agreement:** Collective agreements with a generalised application, due to their functional scope being the sector of the economic activity and the territorial scope being the whole of the Nation.
- **Sectoral agreement of a scope lower than national (Autonomous Community, province, region, etc.):** Collective agreements of a geographical reference lower than the whole of the Nation (Autonomous Community, province, region, etc.).
- **Agreement of a company or group of companies:** those whose application is limited to the company or group of companies.
- **Workplace agreement:** those whose application is limited to the workplace itself.
- **Modifications of the agreement:** Although collective agreements govern, with a general nature, within their scope of application and during the term of their working conditions, wage scheme and remaining circumstances that must cover the labour relations between those employers and employees affected by them, such circumstances may be subject to alterations during said term, by agreement between the company and the workers.

This section intends to ascertain whether, in the application of the referred-to collective agreement, there has been any significant alteration, by agreement between the representatives of the workers and the company, or as a result of the procedure established for it, including arbitration.

In case there have been modifications, this includes the conditions that have been affected: working conditions, wage regime or both.

## 4 Survey design

The information from the Annual Labour Cost Survey, referring to year  $t$ , is requested from all contribution accounts of the QLCS sample for the months of February, March and April of year  $t+1$ . Therefore, the sample design of the survey, and the estimators used for obtaining the questionnaire results, are similar to those of the QLCS (for further information, see the methodology of the QLCS):

- This is stratified random sample with optimum allocation, in which 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), the economic activity (CNAE-09 division, with 82 divisions in total) and the size of the units (8 strata or size groups).
- Separate ratio estimators are used, taking the number of workers in the Social Security Directory of Contribution Accounts as the auxiliary variable.

## 5 Obtaining results

As mentioned above, the information of the Annual Labor Cost Survey with reference to year  $t$  is requested to all the contribution accounts of the sample of the QLCS of the months of February, March and April of the year  $t + 1$ . Therefore, the QLCS sample does not match the ALCS sample for the same year of reference in the part that is renewed each year (approximately 25%).

To obtain estimates of the total labor cost and its components are calculated:

- Annual estimates of labour cost components collected quarterly in the QLCS as the annual average of the four quarters of the year  $t$  multiplied by 12 months.
- Population estimates of the annual cost components collected in the ALCS from their separate ratio estimators.

The estimates of both sources of information are made at the highest level of disaggregation, joining for each cross between autonomous community, division of activity of the CNAE-09 and stratum of size.

Until **the reference year 2015**, the annual estimates of labour cost per employee for year  $t$  were obtained as follows:

1. Annual estimates of the components of Labour Cost collected quarterly in the QLCS were calculated. In this way and taking into account that the annual questionnaire does not include any of these components, they are obtained directly:
  - Obligatory Social Security Contributions
  - Compensation for dismissal
2. Until 2015, the annual questionnaire asked in each question whether the cost component in question was included in the payroll or not.

The part not included in the payroll increased the level of labor cost estimated in the QLCS. In addition, estimates of the variables collected in the annual questionnaire for year  $t$  were obtained.

From the total estimates of these variables are obtained directly:

- Voluntary Contributions
  - Annual expenditure on vocational training
  - Annual transport expenses
  - Annual corporate expenses
3. The rest of the cost figures are obtained as the sum of the annual estimates of the variables collected, in part by the QLCS (point 1) and from the annual results for the same variables collected in part in the annual module (point 2) that are not included in the monthly payslips:
    - The Wage Cost: payments in kind and compensations related to the share capital of the company that are not included in the payslips from the annual questionnaire is added to the wage cost obtained from the QLCS.

- Direct Corporate Contributions, as the sum of the same concept in both surveys (only the part not included in the payslips of the annual questionnaire).
- Other costs, as the sum of the Other non-wage payments of the QLCS and the other expenses not included in the payslips from the annual questionnaire.
- Allowances and travel expenses are not considered part of the labour cost, granted that they arise as a necessity of the productive process, thereby constituting an intermediate consumption. However, it is common for monthly payslips to include this item, whereby it is not possible to eliminate it from the QLCS. From the data collected in the annual survey, the annual figure is estimated, and corrected for those units that include it quarterly.
- Subsidies, as the sum of the discounts and subsidies of the Social Security contributions from the QLCS and the subsidies for contracting, vocational training and tax deductions from the annual questionnaire.

From **2016**, the section on inclusion or not in payrolls has been removed from the questionnaire because since 2014, most of these concepts have been listed in Social Security and the term to regularize the contribution bases ended in 2015. Therefore, all items are considered to be included in the payroll and so, included in the QLCS except the expenses in professional training and personnel selection expenses, as well as tax deductions and subsidies that are not settled through the Security Social.

The results of the ALCS are used to break down the main components of the cost obtained in the QLCS in aggregate way. In the case that the estimate of the components of the cost from ALCS is higher than that obtained from the QLCS, those will replace the estimation from the QLCS. This can happen for two reasons:

- They are not the same units in both surveys due to the annual renewal of the sample
- The cost has not been collected in QLCS because it was produced in a month in which the unit was not surveyed.

#### **Section of the regulation of labour relations:**

The variables in this section refer to qualitative variables that are not available in the results of the QLCS. In order to obtain estimates of the labour cost and its different items, according to the type of regulation of the labour relations, and according to whether or not the conditions of the collective agreement have been modified, we have proceeded in the following way:

- A common sample for the QLCS and ALCS has been obtained in each quarter of the QLCS.

- The microdata from these common units has been calibrated, using the CALMAR macro, to the total labour costs (broken down by their main components), by Autonomous Community and activity sector.
- The labour costs have been calculated, following the indications above, with the calibrated quarterly results and those of the ALCS.