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Temporary Employment: The New Permanent?

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As the United States recovers from the 2008 recession, many consider any employment growth to be a good sign. But uncertainties about future tax and health care costs could be inhibiting permanent job growth, shifting more of the labor force to temporary and part-time employment.

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The History of Temporary Employment. Temporary employment — a position a worker is expected to leave after a certain period of time — is relatively new outside of agriculture and other seasonal work. According to the Bureau of Labor Statistics, in 1956 there were only 20,000 temporary employees:

- By the early 1970s, there were 200,000 temporary employees, representing 0.3 percent of U.S. employment.
- In 1990, there were about 1 million temps, about 1 percent of employees.
- In 2000, 2.7 million temps accounted for 2 percent of employees.

Temporary employment is usually associated with administrative work and lower skilled jobs. In 2008 almost a quarter of temporary jobs were office and administrative support positions, and another 20 percent were in transportation and material moving. However, other industries have increased their use of temporaries:

- From 2004 to 2008 temporary employment grew almost 50 percent in the business and financial sector.
- Temp jobs requiring computer and mathematical skills grew 41 percent.
- Education, training and library temp jobs grew nearly 41 percent.

Temporary Employment Trends. Temporary employment fell slightly during the recession, but has risen steadily since mid-2009. A 2010 report by the American Staffing Association noted:

- From October 2009 to June 2010, the U.S. staffing industry added 379,000 new jobs.
- During that period, America's staffing companies added more new jobs than any other private-sector industry.

In all of 2010, according to the U.S. Department of Labor, the economy added more than 1.3 million jobs.

Part-Time Employment. Part-time employment — less than 35 hours per week — has grown in recent years, according to U.S. Bureau of Labor Statistics reports:

- From 2005 to 2010, part-time employment doubled, from 4.3 million to 8.9 million jobs.
- Overall, since 2007 there has been a net loss of 9.8 million full-time jobs, but a gain of 2.3 million part-time jobs.

The increase in part-time employment is not entirely voluntary. About 31 percent of current part-time workers prefer full-time

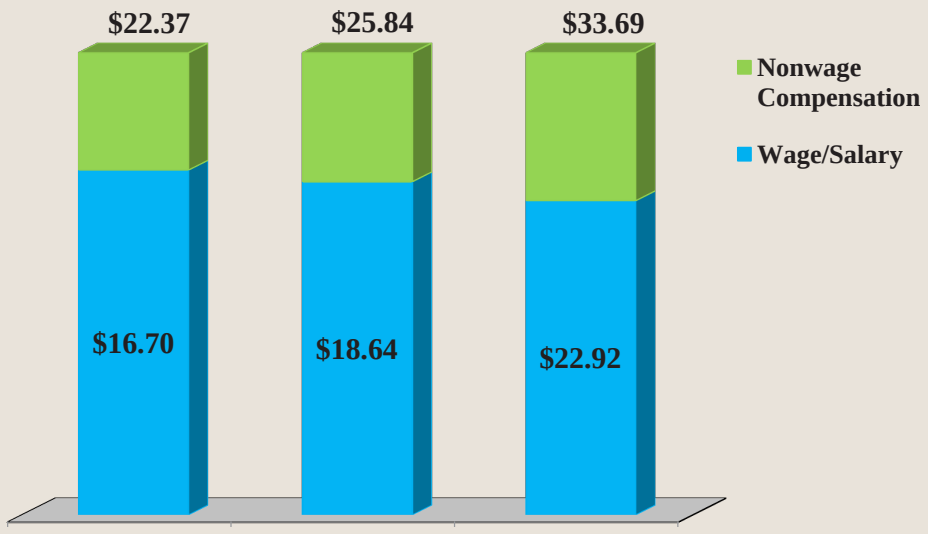
jobs. According to the Bureau of Labor Statistics, from April 2006 to August 2011, the number of part-time workers seeking full-time employment increased from 3.6 million to nearly 8 million.

The Marginal Cost of Employment. A firm will hire an additional worker only if the expected value of the worker's output exceeds the cost of his wages and benefits. In the short run, temporary and part-time employees are less expensive to a firm, especially if it uses a staffing agency. Firms do not have to pay benefits to temporary employees, deduct payroll and income taxes from their checks, or incur the cost of recruiting and screening the workers. The staffing agency handles this, reducing the firms' administrative and benefits costs compared to hiring permanent employees.

The cost of benefits has grown faster than wages and salaries since 2004. In 2010 the average total compensation of a full-time worker was $10 an hour — in addition to hourly wages. In a competitive market marginal cost increases are shifted to employees in the form of lower wages or other compensation.

Firm Size and the Cost of Employment. The figure shows the average cost of compensation versus wages and salaries of all private employment for firms of various sizes in the first quarter of 2011. As firm size increases, the cost of compensation increases. Furthermore, nonwage compensation, for such benefits as group health insurance, increase:

- For small firms (1 to 49 workers), hourly compensation averages $22.37, with nonwage benefits comprising about $6.00 of the total.



Source: "2011 Q1 Cost of Compensation in Dollars," Bureau of Labor Statistics.

- For medium-size firms (50 to 99 workers), however, hourly compensation averages $25.84, with about $7.00 of the total in nonwage benefits.
- For large firms (100 or more workers), average hourly compensation is $33.69, with $11 of the total in nonwage benefits.

Impact of the Affordable Care Act on the Cost of an Employee. Beginning in 2014, the Affordable Care Act (ACA) requires employers with 50 or more employees to offer health insurance to employees who work 30 or more hours per week or pay a penalty. At the margin, the legislation is the biggest obstacle to adding a 50th employee.

Some employers will hire temporary or part-time workers to avoid the cost of providing health insurance. However, the ACA limits the ability of employers to avoid paying penalties by hiring only part-time employees. The ACA treats part-time employees as "full-time equivalents" by adding up the total number of hours per month worked by the part-timers and dividing by 120. For example, if six part-time employees each work 25 hours per week, they would be the equivalent of five full-time employees. Thus, these part-time employees would be counted toward determining whether or not the employer has 50 employees and is required to offer health insurance.

Conclusion. If wages and salaries remain fairly constant, but the cost of health care and retirement benefits grows, employers will be more likely to use a temporary worker from a staffing agency. This gives an employer the flexibility to staff for demand, while avoiding the cost of a permanent employee.

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