Work Costs in the European Union Countries

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ABSTRACT
The article explains the difference between pay and labor costs. There are also contributions paid by both the employer and the employee.

Keywords: remuneration, work costs, labor costs

1. INTRODUCTION

By doing business, each business is set to profit. However, in order to work it out, the employer has to bear the costs associated with running the business. In the process of rendering services or production of finished goods, fixed assets, energy and materials are consumed. In addition, the employees are employed and the services of other entities to be paid for the activities are used. Operating expenses include those items that are used throughout the production process. These costs include labor costs.

2. REMUNERATION AND WORK COSTS

Labor costs should be understood as all expenses incurred by the company. These expenditures are related both to the acquisition, retraining, retention, improvement of employed persons and to compulsory social security contributions.
It is worth noting that labor costs are divided into wage costs, [2] such as bonuses, bonuses, allowances and personal wages, [3] and so-called non-wage costs, which are to be understood as labor costs and contributions paid by the employer without the direct remuneration.\(^e\)

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\text{SALARY} + \text{NON-WAGE LABOR COSTS} = \text{TOTAL COST OF LABOR}
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**Fig 1.** Labor costs.  
Source: Based on data from the Central Statistical Office.

According to the Central Statistical Office, the total labor costs include fees, personal wages, contributions to the Labor Fund\(^d\), missions for business delegations, annual bonuses for budget group employees, accident insurance premiums\(^e\), profitable and pensionable expenses paid by the employer, with education, training, retraining, human resources, [4] occupational safety and health, payments for work-related surplus, remuneration for work contracts or contractual contracts, \(^f\) company social benefits fund, distribution as well as other expenses which are related, among other things, to the commutation of employees to the establishment, expenses for recruitment, as well as expenses incurred by the entrepreneur for the insurance of its employees in the third pillar. [7]

Of all possible means of employment the biggest difference between pay and labor costs is when your employer decides to hire an employee for a contract of employment. The employer is then responsible for the largest total labor costs, which are covered by employee contributions and contributions paid by the employer.

The value of the employee's pension coverage is 9.76%. On the other hand, the health insurance contributions amount to 9% and the premium for health insurance is 2.45%. The smallest contributions are 1.5% and they are for profitable insurance.

The value of contributions paid by the employer for retirement insurance amounts to as much as 9.76%. Profitable insurance is 6.50%, Labor Fund 2.45%. The value of accident insurance is 1.80%. At least 0.1% of employers pay for the Guaranteed Employee Benefits Fund.

By showing the contributions paid by both the employee and the employer, you can see how many premiums fall into the so-called non-payroll costs. Nevertheless, it is important to note that the employer is not always obliged to pay contributions to the Guaranteed Employee Benefits Fund or to the Labor Fund.

The difference between the cost of labor and the wage is the lowest in the case of a work contract. In its case, the entrepreneur is not obliged to pay contributions related to the employment. Conversely, when the entrepreneur signs work contract with the employee and the employee is already employed by the employee on the basis of another contract, the entrepreneur must take into account the income from this contract with the insurance premiums for the profitable and the pensioner.
Fig 2. Types of premiums discharged by the employee.
Source: Sedlak & Sedlak study based on the Central Statistical Office.

The value of accident insurance is not uniform. It is based on individual findings of the Social Insurance Institution.

Fig 3. Contributions covered by the employer.
Source: Sedlak & Sedlak study based on the Central Statistical Office.

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Also in the case of contract labor costs are lower. The employee completes the statement on the basis of which the trader determines whether the employee has the right to another insurance. The employer is obliged to pay the pension insurance premium, health insurance or accident insurance if the contract is an exclusive requirement for insurance. If an employee is a student under the age of 26 or has a contract of employment and earns no less than the minimum amount, then the entrepreneur is not obliged to pay contributions. On the other hand, an employee who works on more than one contract can only be insured on the basis of one of them.

One of the basic factors in the functioning of the economy is work, which is a major factor in business competition, which is affected by both capital costs and non-price aspects, which include brand and product innovation.

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\text{Labour costs}
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- Social contributions payable by the employer
- Gross wages/earning:
  - social contributions payable by the employee
  - taxes e.g. income tax
  - net earnings including family allowances
- Other costs:
  - training costs
  - taxes on labour
  - other costs

**Fig 4.** Labour costs.

Very often the earnings received by employees are the main source of income for them [3]. Gross pay includes social security contributions paid by the employee. Net wages, on the other hand, are calculated after deduction of the aforementioned contributions, as well as other amounts owed to the State Treasury.

In 2015, the average hourly labor cost was over € 25 in 28 European Union countries and € 29.5 in the euro area. These figures, however, conceal serious discrepancies among Member States. Costs per hour of work are valued between about 4 euros and over 41 euros. Labor costs can include salaries and wages, as well as non-wage costs. Non-wage costs may include social security contributions paid by the employer. Non-wage labor costs in the economy in 2015 amounted to 24% in 28 countries of the European Union. In contrast, in the euro area, where 19 non-wage labor costs are associated with 26%.

The biggest part of the cost of employment is gross wages. Among Member States of the European Union, the difference between the countries with the highest and the lowest median was 16 times. If we transpose the difference, then the purchasing power of the force, taking into account the disparities that affect the price comparison between states, is 5 to 1.

Low income earners can be counted for people who earn no more than most of the national median gross earnings per hour of work in that country.
Unfortunately, between the average earnings of men and women in the European Union, dependencies are different, and this is the gender pay gap.

In 2014, in the 28 European Union countries women were paid on average 16.1% less than men. Such variation is influenced by several factors, including the following ranges: differences in the coefficient of activity; Differences in competition and occupations dominated by men or women; The extent to which women and men work part-time; You can also include private and public sector staff members on your career progress and free and maternity leave. Fundamental factors that partially explain the gender pay gap are sector and occupational segregation, training as well as education, as well as transparency and awareness. In view of remuneration and gender disparities, the remaining inequalities, such as basic family responsibilities and the associated nuisance in reconciling private and professional life, can also be seen. A large part of women work part-time, or atypical contracts. Thanks to such agreements, women can reconcile their working lives with the private, that is, they have a chance to work and also take care of household chores. However, it involves pay, career development, as well as the retirement that will be paid to such employees.

![Labour cost index by NACE Rev. 2 - percentage change Q/Q-4](http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teilm130&plugin=1)

**Fig. 5. Labour cost index by NACE - UE (28 countries)**

The labor cost shown in the figure above shows the short-term development of total costs in the European Union countries between 2014 and 2016.

### 3. CONCLUSIONS

Labor costs are an important element of an economic account in an enterprise. For this reason, they should be the subject of observation not only to reduce the upset of the staff but also to make personal decisions. Labor costs include dependent or independent entities that
are located in existing social security regulations, tax law and labor law. Proper measurement and categorization of the described costs largely affect the accuracy of personnel policy in the enterprise.

References


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