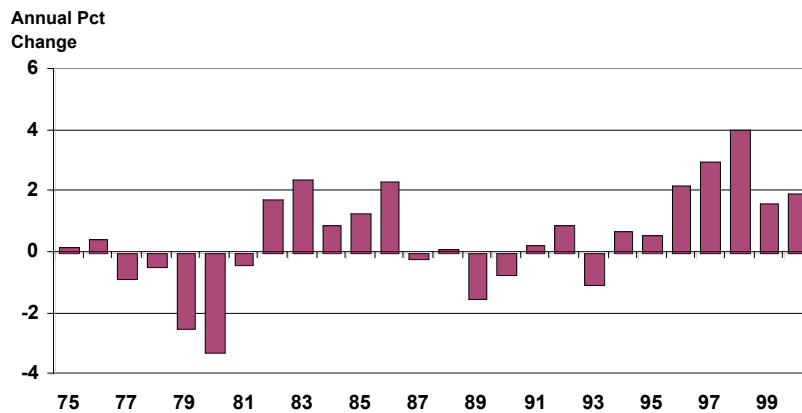


Estimates of Performance Based Compensation in Minnesota

Thomas F. Stinson
Minnesota Department of Finance
September 21, 2003

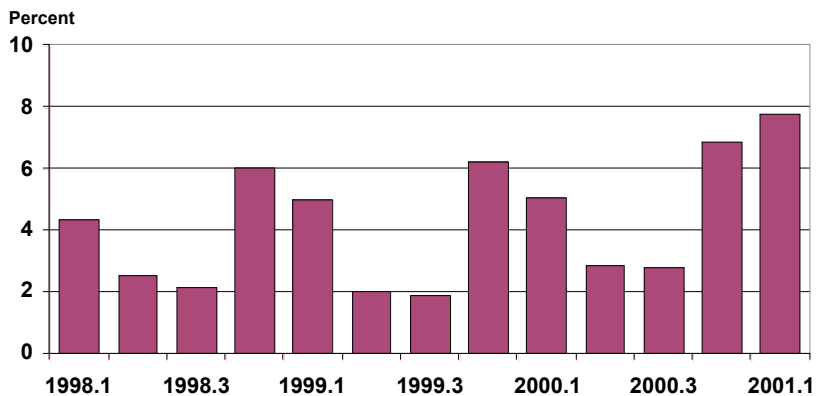
Real Wages Per Job Grew Dramatically During the Late 1990s



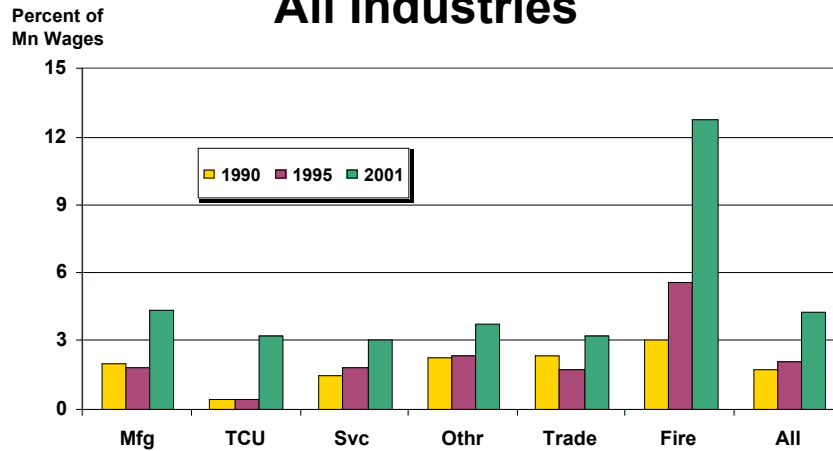
Options and Bonuses Appear to Be a Significant Portion of Minnesota Wage Income

- **Source:** Current Employment and Wages (ES202) data, firms with 5 or more employees
- Average Hourly Wage = Total Wages/ Total Employment/500
- Initial Filters-- \$40/hr average wage *and* \$10/hr more than average in 3 previous quarters
- Performance Based Compensation = $\text{Av. Wage } Q_t - \text{Av. Wage } (Q_{t-1} \dots Q_{t-3})$

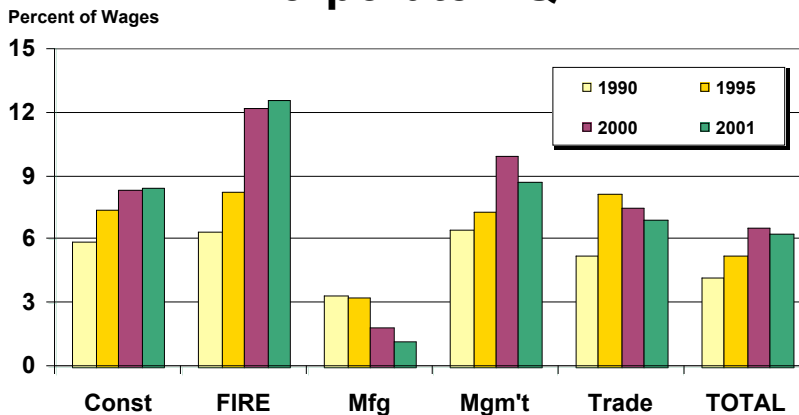
Performance Based Compensation Exceeded 7.8 Percent of Wages in 2001 Q1



Performance Based Compensation Grew as a Proportion of Wages in All Industries

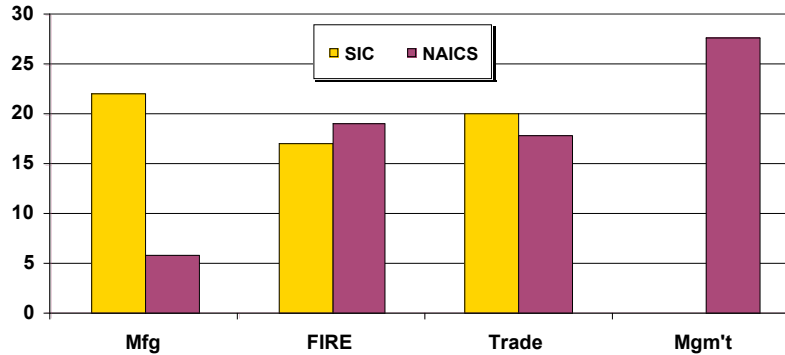


Bonus and Options Proportion of Wages Highest in Finance and Corporate HQ



Corporate Headquarters Accounted for 28 Percent of Minnesota Bonuses and Options

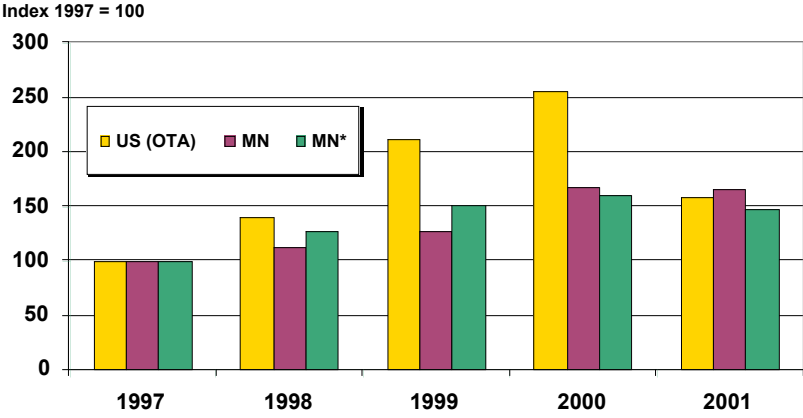
Percent of Total
Performance Comp



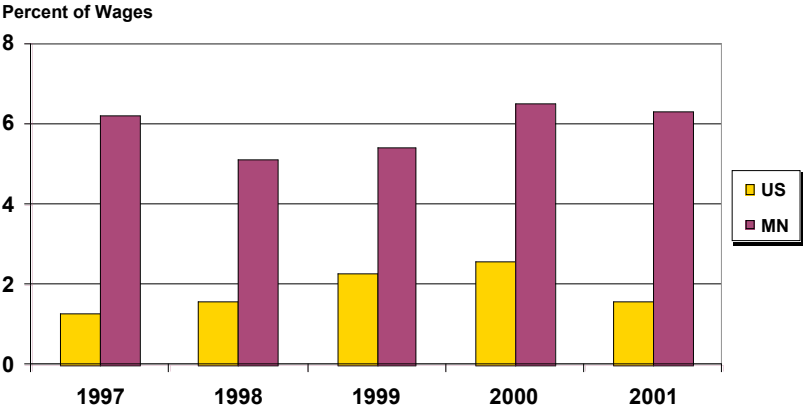
OTA Study Offers Useful Comparison

- Jaquette, Knittel, and Russo, (OTA Working Paper 89) estimate the amount of non-qualified stock options in wage income.
- Sample of 10-k's from more than 600 firms, 1997-2001
- Estimates of dollar amounts granted and spread income --actual and potential

Minnesota Options and Bonuses Grew More Slowly than US Options



Bonuses Appear to Exceed Options as a Percent of Wages



Implications

- Performance based compensation is a growing, volatile component of Minnesota wages.
- Bonus payments probably exceed options.
- Separating total wages into ordinary wages and performance based compensation highlights underlying assumptions on bonus and option income.