

FACTS from EBRI

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Finances of Employee Benefits, 1960–2003

Financing of the U.S. employee benefit system is a joint effort by employers and employees. Both employers and employees make payments to *voluntary* employee benefit programs that provide health insurance coverage, retirement benefits, and other benefits. In addition, employers and employees make payments to *mandatory* government social insurance programs—most notably Social Security and Medicare—which provide retirement income and health care coverage for elderly and disabled workers and their dependents. Whether voluntary or mandatory, each of these systems is employment-based and financed primarily from earmarked employment-based contributions by the employer and/or the workers. This fact sheet uses the latest data (for 2003) from the Bureau of Economic Analysis' (BEA) "National Income and Product Accounts of the United States," as published in the *Survey of Current Business*.

These benefit programs provide substantial financial support for individuals during their working lives (i.e., health insurance and unemployment insurance) and during retirement (i.e., Social Security, pension plans, and Medicare).

Benefit Payments to Individuals

In 2003, Americans received a gross total of about \$1.93 trillion from major employee benefit programs. Of this amount, *retirement benefit payments* of \$1,014.6 billion accounted for 52.6 percent of total benefit payments (Figure 1). Of that amount for retirement benefit payments, \$463.3 billion was paid by the Social Security Old-Age, Survivors and Disability Insurance (OASDI) program; \$320.4 billion by private pension and profit-sharing plans; and \$230.9 billion by public-employer retirement plans, including payments for federal civilian, state and local governments, railroad employees, and military personnel.

Health benefit payments of \$754.5 billion accounted for 39.0 percent of total benefit payments (Figure 1). Sixty-four percent of this (\$482.3 billion) was paid by private group health insurance programs, while 35.9 percent (\$270.5 billion) was paid by Medicare.

Payments from *other voluntary and mandatory employee benefit programs*, including unemployment insurance, workers' compensation, group life insurance, disability, and veterans' benefits, totaled \$161.0 billion, or about 8.3 percent of total benefit payments in 2003.

Employer Spending on Benefits

In 2003, employers spent \$1.18 trillion on major voluntary and mandatory employee benefit programs, including \$569.1 billion for retirement programs (48.0 percent), \$501.4 billion for health benefit programs (42.3 percent), and \$114.1 billion for other benefits (9.6 percent) (Figure 2). While retirement benefits currently constitute the largest single share of employer spending on benefits, health costs are growing fast and are likely to soon outstrip retirement and become the major source of benefits expense.

Since 1960, the amount employers have spent on benefits has grown as a share of total compensation relative to wages and salaries. After increasing in the 1960s by 178 percent, and in the 1970s by 318 percent, employer spending on benefits slowed in the 1980s, increasing by 113 percent. In the 1990s, benefit spending decreased significantly to 63 percent (calculated from Figure 2). Employers spent \$1,184.5 billion, or 18.8 percent of total compensation, for employee benefits (not including paid leave) in 2003. This compares with \$273.7 billion, or 16.6 percent of total compensation in 1980, and \$23.6 billion, or 8.0 percent of total compensation in 1960 (Figure 2).

Figure 1
Selected Payments to Individuals From the Employment-Based Benefits System, by Function, Selected Years 1960–2003

1960	1970	1980	1990	2000	2003	
						(\$ billions)
All Benefits	\$30.5	\$90.3	\$352.0	\$870.0	\$1,572.2	\$1,930.1
Retirement Income Benefits	16.8	50.7	201.8	481.9	862.9	1,014.6
Social Security Old-Age, Survivors, and Disability Insurance (OASDI)	11.1	31.4	118.6	244.1	401.2	463.3
Private employer pension and profit sharing	1.7	7.4	35.3	136.2	270.1	320.4
Public employer retirement plans	4.0	11.9	47.8	101.6	191.6	230.9
federal civilian employee retirement ^a	0.9	3.0	15.5	32.0	49.8	55.0
state and local government retirement	1.4	4.0	15.1	40.6	100.3	131.2
military retirement ^b	0.8	3.2	12.5	21.9	33.2	35.9
railroad retirement	0.9	1.7	4.8	7.2	8.3	8.9
Health Benefits	4.3	22.3	99.0	300.3	596.8	754.5
Medicare Hospital Insurance and Supplementary Medical Insurance	0.0	7.3	36.2	107.6	219.6	270.5
Group health insurance	4.3	14.8	62.4	191.2	376.0	482.3
Military health insurance ^c	0.0	0.2	0.4	1.5	1.2	1.7
Other Employee Benefits	9.4	17.3	51.2	87.8	112.5	161.0
Unemployment insurance ^d	3.1	4.2	16.1	18.2	20.4	53.1
Workers' compensation ^e	1.5	3.0	12.5	38.0	48.2	54.4
Group life insurance	1.1	2.9	6.6	12.3	17.0	18.6
Miscellaneous disability ^f	0.1	0.5	2.6	3.6	3.7	4.7
Veterans' benefits ^g	3.7	6.6	13.4	15.8	23.2	30.2

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/bea/dn/nipaweb/index.asp

^a Consists of civil service, foreign service, Public Health Service officers, Tennessee Valley Authority, and several small retirement programs.

^b Includes the U.S. Coast Guard.

^c Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.

^d Consists of state, railroad employee, and federal employee unemployment benefits; special unemployment benefits; and supplemental unemployment benefits.

^e Includes payments from private, federal, and state and local workers' compensation funds.

^f Includes federal black-lung payments and payments from state and local temporary disability insurance.

^g Consists of pension and disability, readjustment, and other veterans' benefits.

Employer spending on wages and salaries increased in the 1960s at an average annual rate of 8.1 percent, in the 1970s at an average annual rate of 10.7 percent, in the 1980s at an average annual rate of 8.0 percent, and in the 1990s at an average annual rate of 6.4 percent. Some analysts have stated that the slower growth of employer spending on wages and salaries was due in part to an increase in employer spending on health care benefits. Although spending on health care benefits increased at a faster rate in the 1960s and 1970s, 17.6 percent and 19.6 percent, respectively, health care benefit spending growth slowed in the 1980s to an average annual growth rate of 12.6 percent and an even slower rate of 7.3 percent in the 1990s.

Of the three major employee benefit categories, health benefits increased the most as a percentage of benefit spending. In 1960, health benefits accounted for 14.4 percent of all benefit spending, retirement benefits 59.7 percent, and other benefits 26.1 percent. By 2003, health benefits accounted for 42.3 percent of all benefit spending, retirement benefits 48.0 percent and other benefits 9.6 percent (calculations based on data in Figure 2).

Figure 2
**Employer Outlays for Selected Employment-Based
 Benefits, by Function, Selected Years 1960–2003**

1960	1970	1980	1990	2000	2003	
						(\$ billions)
Total Compensation	\$296.5	\$617.0	\$1,651.1	\$3,337.5	\$5,781.1	\$6,288.0
Wages and Salaries ^a	272.8	551.5	1,377.4	2,754.0	4,829.2	5,103.6
All Benefits	23.6	65.5	273.7	583.5	952.6	1,184.5
Retirement Income Benefits	14.1	40.1	160.1	292.9	458.8	569.1
Social Security Old-Age, Survivors, and Disability Insurance	5.6	16.2	55.6	137.3	233.3	253.8
Private employer pension and profit sharing	4.9	13.1	55.3	63.8	113.5	190.6
Public employer retirement plans	3.7	10.8	49.2	91.8	112.0	124.7
federal civilian employee retirement ^b	0.8	2.0	15.9	28.7	41.3	41.2
state and local government retirement	1.8	5.1	19.1	33.0	39.6	39.4
military retirement ^c	0.8	3.2	12.5	27.5	28.2	41.5
railroad retirement	0.3	0.5	1.7	2.6	2.9	2.5
Health Benefits	3.4	14.6	73.0	211.9	399.6	501.4
Medicare Hospital Insurance	0.0	2.3	11.6	33.5	67.0	70.7
Group health insurance	3.4	12.1	61.0	176.9	331.4	429.0
Military medical insurance ^d	0.0	0.2	0.4	1.5	1.2	1.7
Other Employee Benefits	6.1	10.8	40.6	78.6	94.2	114.1
Unemployment insurance ^e	3.0	3.8	17.2	24.5	29.8	35.4
Workers' compensation	2.0	4.6	19.3	46.9	52.0	66.1
Group life insurance	1.1	2.4	4.1	7.2	12.4	12.6

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/bea/dn/nipaweb/index.asp

^a Includes paid holidays, vacations, and sick leave taken.

^b Consists of civil service, foreign service, Public Health Service officers, Tennessee Valley Authority, and several small retirement programs.

^c Includes the U.S. Coast Guard.

^d Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.

^e Consists of state, railroad employee, and federal employee unemployment benefits; special unemployment benefits; and supplemental unemployment benefits.

Individual Spending on Benefits

Individuals paid \$609.0 billion into the benefit system in 2003. Personal contributions to retirement income benefits, including contributions to Social Security OASDI and public-sector retirement plans, totaled \$247.4 billion (40.6 percent) (Figure 3). Private-sector employee contributions for pension (defined benefit) and profit-sharing (401(k) plans) are not reported separately by the BEA. In the National Income and Product Accounts (NIPA), reported by the Federal Reserve, individual contributions to salary reduction plans (such as 401(k) plans) are included in the line item of personal savings. Personal savings are shown as a *net residual*, equal to personal income minus contributions to social insurance, personal tax and non-tax payments, and personal outlays. When personal savings (reported by NIPA) are added into retirement income contributions (reported by BEA), the total figure sums to \$358.3 billion, or 58.8 percent of total individual contributions to employee benefits.

Contributions to health benefits totaled \$205.6 billion (or 33.8 percent) in 2003. In NIPA, individual contributions to health benefits include premiums paid by individuals for health insurance purchased in the individual market. The dataset cannot break out contributions to employment-based health insurance from premiums paid for health insurance purchased in the individual market.

Figure 3
**Personal Contributions for Selected Employment-Based
Benefits and Personal Saving, Selected Years 1960–2003**

1960	1970	1980	1990	2000	2003	
	(\$ billions)					
All Benefits and Savings	\$30.3	\$87.0	\$248.9	\$543.8	\$610.9	\$609.0
Retirement Income Benefits	7.9	21.6	67.1	156.7	269.5	292.6
Social Security Old-Age, Survivors, and Disability Insurance (OASDI)	5.6	16.2	55.6	136.4	231.3	247.7
Private employer pension and profit sharing	a	a	a	a	a	a
Public employer retirement plans	2.3	5.4	11.5	20.3	38.2	44.9
federal civilian employee retirement	0.8	1.9	3.8	4.5	10.9	13.8
state and local government retirement	1.2	3.1	7.1	14.6	25.8	29.7
railroad retirement	0.3	0.4	0.6	1.2	1.4	1.4
Health Benefits	1.8	7.8	27.4	87.5	172.8	205.6
Medicare Hospital Insurance	b	2.3	11.6	33.4	68.4	72.3
Medicare Supplemental Medical Insurance	b	1.1	3.0	10.7	20.4	27.3
Health insurance	1.8	4.4	12.8	43.4	84.0	106.0
Other Employee Benefits						
Unemployment insurance	0.0	0.0	0.1	0.2	0.1	0.2
Personal Savings ^c	20.6	57.6	154.3	299.4	168.5	110.6

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov/bea/dn/nipaweb/index.asp

^a Private-sector employee contributions for pension and profit-sharing plans are not reported separately. Such contributions are included in personal saving, as reported in this table.

^b Program not yet enacted.

^c Personal saving is a net residual, equal to personal income minus personal contributions to social insurance, personal tax and nontax payments, and personal outlays. It therefore includes savings attributable to income from employer contributions to private and public pension and profit-sharing plans and benefits paid by government employee retirement plans because these flows are defined as components of personal income. Personal saving also includes life insurance savings attributable to premiums paid by individuals and individual contributions to individual retirement accounts and employment-based retirement plans. However, because of the possible failure of some employers to report amounts voluntarily contributed by employees to retirement plans through pretax salary reduction, personal saving (and total compensation) may understate such amounts. However, employee contributions to public pension plans are not included. Employees' voluntary contributions to private retirement plans through pretax salary reduction are included in personal savings to the extent that they are reported by employers as wage and salary disbursements in their reports for unemployment insurance.