

FACTS **from EBRI**

Employee Benefit Research Institute ■ 2121 K Street, NW, Suite 600 ■ Washington, DC ■ 20037

March 2005

Compensation Costs in the Private and State/Local Public Sectors

Compensation Costs in Private Industry: March 1987–September 2004

Total Compensation Costs

- Total compensation costs for private-sector employers in September 2004 were \$23.76 per hour worked, up from \$13.42 in 1987. Since March 1987, total compensation costs have increased at an average annual rate of 3.3 percent, according to data from the Bureau of Labor Statistics (BLS).

Employee Benefits Costs

- The costs of employee benefits increased at an average annual rate of 3.7 percent from March 1987 to September 2004. In March 1987, benefit costs per hour worked were \$3.60, or 26.8 percent of total compensation. In September 2004, benefit costs were \$6.80 per hour worked, or 28.6 percent of total compensation—an increase of just under 2 percentage points over 17 years.
- From March 1987 to March 1994, employee benefits accounted for an increasing share of total compensation costs, from 26.8 percent in March 1987 to 28.9 percent in March 1994. Benefit costs declined as a percentage of total compensation after March 1994, and leveled off at 27.0 percent from March 1998 to March 2001. By September 2004, benefit costs had climbed to 28.6 percent of total compensation costs.
- One of the major causes of the decline in benefit costs (from March 1994 through March 1998), as a percentage of total compensation costs, was the decline in health benefit costs. Health insurance increased steadily from March 1987 (\$0.72 per hour worked) to March 1994 (\$1.23), but then declined to a low of \$0.99 in March 1997. However, since March 1997 health insurance has been increasing again. Health benefit costs were \$1.16 per hour worked in March 2001 and rose to \$1.56 per hour worked by September 2004.

Retirement Plans

- Throughout the 1990s defined benefit plan costs, as a percentage of total compensation costs, declined steadily from 3.1 percent in March 1987 to 1.0 percent in December 2002. Since December 2002, defined benefit costs have been increasing and reached 1.7 percent in September 2004.
- Defined contribution plan costs increased from March 1987 to March 1996, increasing from 0.5 percent of total compensation costs to 1.7 percent. From March 1997 to March 2001, these costs decreased, reaching 1.0 percent in March 2001. In 2002–2004, these costs increased again to 1.8 percent.

Legally Required

Legally required benefits (Social Security, federal and state unemployment, and workers' compensation) have always been the highest-cost employee benefit for private-sector employers. Legally required benefits accounted for 8.4 percent of total compensation costs (\$1.13 per hour worked) in March 1987, and increased to 9.4 percent (\$1.60) by March 1994. Legally required benefits declined to 8.4 percent of total compensation costs by December 2002 (\$1.85), but by September 2004 had increased to 8.7 percent of total compensation costs (\$2.07).

- March 1996 was the first time the BLS reported separate cost data for Old-Age, Survivors and Disability Insurance (OASDI, commonly known as Social Security), and Medicare. At that time, OASDI costs to private-sector employers were \$0.84 per hour worked, or 4.8 percent of total compensation; Medicare costs to employers were \$0.21 per hour worked, or 1.2 percent of total

compensation costs. By September 2004, the costs of Medicare, as a percentage of total compensation costs, had not changed significantly (\$0.28 per hour worked, for Medicare), while the cost of OASDI had increased to \$1.13.

Work Force Characteristics

- Key employer characteristics affecting total compensation costs are: size of the company, industry, occupation group, union status, and work status (full time vs. part time).
- Large establishments have higher total compensation costs than small establishments. Total compensation costs in establishments with fewer than 50 employees were \$19.74 per hour worked in September 2004, compared with \$33.75 per hour worked for establishments of 500 or more employees.
- Goods-producing industries have higher total compensation costs (\$27.88 per hour worked) than service-producing industries (\$22.73).
- Management, business, and financial occupations have the highest total compensation costs (\$46.45 per hour worked), compared with service occupations (\$11.88).
- Total compensation costs were higher for union workers (\$32.54 per hour worked) than for nonunion workers (\$22.72).
- Total compensation costs were higher for full-time workers (\$27.13 per hour worked) than for part-time workers (\$12.83).

Compensation Costs in State and Local Governments: March 1991–September 2004

Total Compensation Costs

- Total compensation costs for state and local governments were \$34.72 per hour worked in September 2004, up from \$22.31 in March 1991, according to data from the U.S. Bureau of Labor Statistics (BLS). Since March 1991, total compensation costs in the state and local government sector have increased at an average annual rate of 3.3 percent.
- Among occupation groups in state and local governments, teachers had the highest total compensation costs, at \$47.35 per hour worked in September 2004. Administrative support occupations had the lowest total compensation costs, at \$23.89 per hour worked.
- Among industry groups, higher education services had the highest total compensation costs, at \$39.94 per hour worked in September 2004. Hospitals had the lowest total compensation costs, at \$29.76 per hour worked.

Employee Benefits as a Percentage of Total Compensation Costs

- The cost of employee benefits increased at an average annual rate of 3.5 percent from March 1991 to September 2004. In March 1991, benefit costs were \$6.79 per hour worked, or 30.4 percent of total compensation. In September of 2004, benefit costs were \$10.89, or 31.4 percent of total compensation.
- From March 1991 to March 1998, employee benefits, as a percentage of total compensation costs, changed only slightly—from 30.4 percent to 30.2 percent. In March 1999, benefit costs declined nearly 1 percentage point to 29.4 percent of total compensation. This decline continued into 2001, with benefits costs declining to 29.0 percent of total compensation in March 2001. By September 2004, benefit costs increased to 31.4 percent of total compensation.
- State and local governments' health insurance costs, as a share of total compensation, increased from March 1991 (6.9 percent of total compensation) to March 1994 (8.2 percent of total compensation). Health insurance costs then declined, reaching 7.5 percent by March 1997 and 1998. Since then, health insurance costs have risen again, reaching 10.0 percent of total compensation in September 2004.
- Retirement and savings benefits costs have declined steadily for state and local governments. In March 1991, these benefits accounted for 8.3 percent of total compensation costs, and by March 2003

they had fallen to 5.7 percent of these costs. Since March 2003, these costs increased to 6.4 percent in September 2004.

Defined Benefit and Defined Contribution Plans

- In September 2004, employer costs for defined benefit plans (\$1.97 per hour worked or 5.7 percent of total compensation costs) were far larger than the costs for defined contribution plans (\$0.25 per hour worked, or 0.7 percent of total compensation costs). Part of the explanation for such a large discrepancy is that defined benefit plans are more prevalent among state and local governments than defined contribution plans.
- Throughout the 1990s defined benefit plan costs, as a percentage of total compensation costs, declined steadily—from 8.2 percent in March 1991 to 4.8 percent in June 2002. These costs have been increasing since June 2002, and reached 5.7 percent in September 2004.
- BLS data indicate that offering defined contribution plans is a small but growing trend among state and local governments, and as a result the cost of these plans also is slowly increasing. In March 1991, defined contribution plan costs as a percentage of total compensation amounted to less than 0.1 percent, and by September 2004 had increased to 0.7 percent.

Employee Benefits as a Percentage of Total Compensation Costs, by Occupation and Industry

- Among service occupations, benefits accounted for the highest percentage of total compensation costs in state and local governments (37.4 percent in September 2004). Among teachers, benefits accounted for the lowest percentage of total compensation costs (25.7 percent).
- In public administration, benefits accounted for the highest percentage of total compensation costs in state and local governments (36.2 percent in September 2004). In elementary and secondary education services, benefits had the lowest percentage of total compensation costs (27.8 percent).

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation—September 2004."

USDL: Press release 04-2490, Dec. 15, 2004, www.bls.gov/ncs/ect/home.htm

3/05

FS-188