

# FACTS from EBRI

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## Employer Spending on Benefits, 2002

- In 2002, employers spent \$6.0 trillion on total compensation, according to the most recent data from the U.S. Commerce Department's Bureau of Economic Analysis (BEA). Wages and salaries accounted for the lion's share, \$5.0 trillion (or 82.8 percent), while benefits made up the remainder, \$1.0 trillion (17.2 percent) (Figure 1).

Figure 1  
Employer Spending for Benefits, 1960–2002

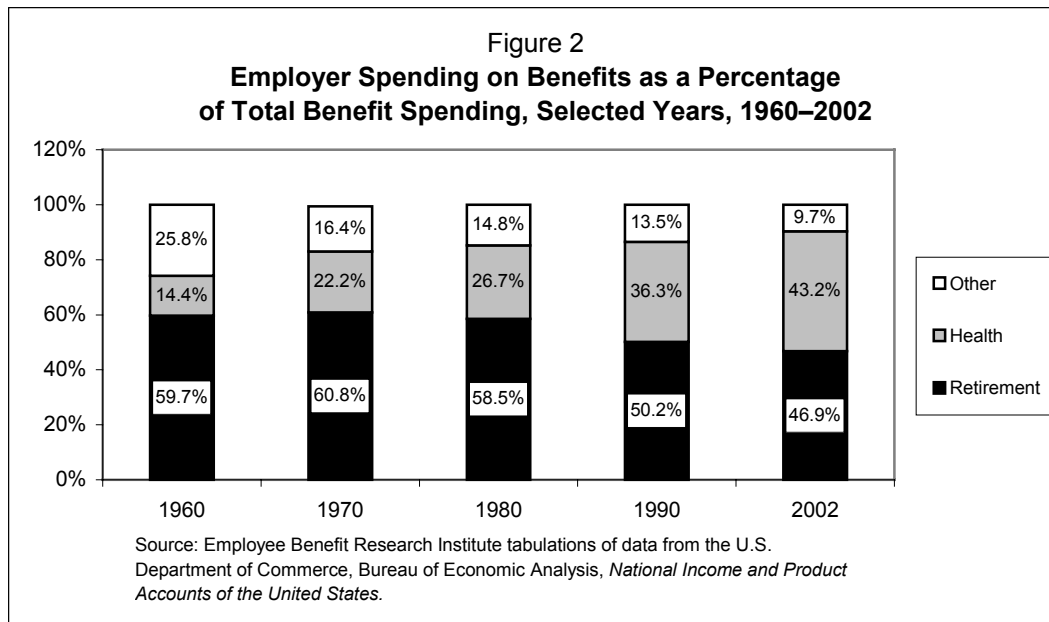
|   | 1960          | 1970    | 1980      | 1990      | 2002      |
|---|---------------|---------|-----------|-----------|-----------|
|   | (\$ billions) |         |           |           |           |
| Total Compensation                      | \$296.5       | \$617.1 | \$1,651.1 | \$3,337.5 | \$6,008.0 |
| Wages and Salaries <sup>a</sup>         | 272.8         | 551.5   | 1,377.4   | 2,754.0   | 4,974.6   |
| Total Benefits                          | 23.6          | 65.5    | 273.7     | 583.5     | 1,033.4   |
| Retirement income benefits              | 14.1          | 40.1    | 160.1     | 292.9     | 483.7     |
| Social Security (OASDI)                 | 5.6           | 16.2    | 55.6      | 137.3     | 242.9     |
| Private employers                       | 4.9           | 13.1    | 55.3      | 63.8      | 124.1     |
| Public employers                        | 3.7           | 10.8    | 49.2      | 91.8      | 116.7     |
| State and local governments             | 1.8           | 5.1     | 19.1      | 33.0      | 38.0      |
| Federal government                      | 1.9           | 5.7     | 30.1      | 58.8      | 78.6      |
| Civilian Retirement                     | 0.8           | 2.0     | 15.9      | 28.7      | 43.9      |
| Military retirement                     | 0.8           | 3.2     | 12.5      | 27.5      | 31.8      |
| Railroad retirement                     | 0.3           | 0.5     | 1.7       | 2.6       | 2.9       |
| Health benefits                         | 3.4           | 14.6    | 73.0      | 211.9     | 449.1     |
| Medicare hospital insurance             | 0.0           | 2.3     | 11.6      | 33.5      | 68.7      |
| Group health insurance                  | 3.4           | 12.1    | 61.0      | 176.9     | 379.3     |
| Military medical insurance <sup>b</sup> | 0.0           | 0.2     | 0.4       | 1.5       | 1.1       |
| Other Benefits                          | 6.1           | 10.8    | 40.6      | 78.6      | 100.7     |
| Unemployment insurance                  | 3.0           | 3.8     | 17.2      | 24.5      | 30.0      |
| Workers' compensation                   | 2.0           | 4.6     | 19.3      | 46.9      | 57.0      |
| Group life insurance                    | 1.1           | 2.4     | 4.1       | 7.2       | 13.8      |

Source: Employee Benefit Research Institute tabulations of data from the U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts of the United States*.

<sup>a</sup> Includes paid holidays, vacations, and sick leave taken.

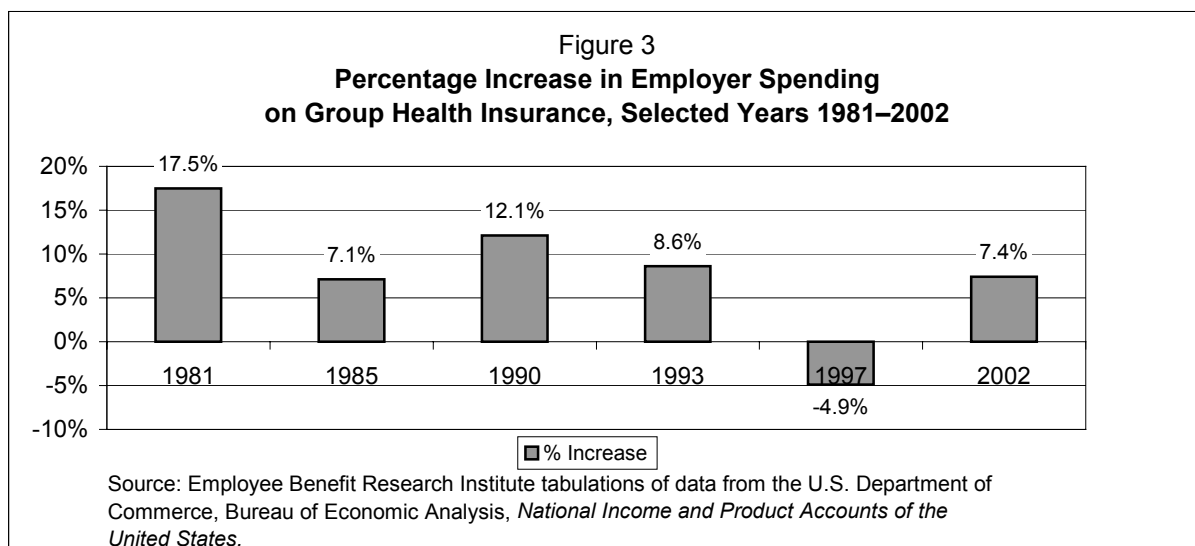
<sup>b</sup> Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.

- Retirement benefits remain the largest single sector of benefits expenditures by employers, although health benefits have been catching up. In 1960, retirement benefits accounted for the majority of total benefit spending (59.7 percent), followed by other benefits (25.8 percent) and health benefits (14.4 percent). By 2002, retirement benefits were still the largest component of all benefit spending, but had declined to 46.8 percent of the total; spending on health benefits had increased to 43.5 percent of total benefit spending, while “other benefits” declined the most, to 9.7 percent (Figure 2).
- In the 1980s, the average annual growth rate of employer spending on all benefits was 7.9 percent. In the 1990s, this growth rate fell substantially, to 5.0 percent, due to the adoption of managed care among employment-based health plan sponsors.



**Health Benefits:**

- The slower growth rate in employer spending on group health insurance accounted for a large part of the slower growth rate in overall spending on employee benefits. In the 1980s, employer spending on group health insurance grew at an average annual rate of 11.2 percent, increasing to \$176.9 billion in 1990 from \$61.0 billion in 1980. In the 1990s, the average annual growth rate in employer spending on group health insurance slowed to 6.5 percent, which represents an increase to \$331.4 billion in 2000 from \$176.9 billion in 1990.
- The rate of employer spending on group health insurance has declined steadily from 1981 (when spending on group health insurance increased 17.5 percent) to the late 1990s; in 1997, it posted a negative growth rate of -4.9 percent. But since 1997, the growth rate of employer spending on group health insurance has been increasing, reaching 7.4 percent in 2002 (Figure 3).



### ***Retirement Benefits***

- Employer spending on retirement income benefits, less Social Security, increased at a slightly faster rate in the 1990s than in the 1980s. In the 1980s, employer spending on retirement income benefits, less Social Security, increased at an average annual rate of 4.1 percent, growing to \$155.6 billion in 1990, up from \$104.5 billion in 1980. In the 1990s, employer spending on retirement income benefits, less Social Security, grew at an average annual rate of 3.8 percent, growing to \$225.4 billion in 2000, up from \$155.6 billion in 1990.
- Private-sector employers spent \$55.3 billion on retirement income benefits, not including Social Security, in 1980. This amount increased to \$63.8 billion in 1990, and to \$124.1 billion in 2002.
- State and local governments spent \$19.1 billion on retirement income benefits for their employees, not including Social Security, in 1980. This amount increased to \$33.0 billion in 1990, and to \$38.0 billion in 2002.
- The federal government spent \$30.1 billion on retirement income benefits for its employees, not including Social Security, in 1980. This amount increased to \$58.8 billion in 1990, and to \$78.6 billion in 2002.
- In the 1980s, the growth rate in employer spending for retirement income benefits, less Social Security, was faster for state and local governments than it was for the private sector. Private-sector spending on retirement income benefits increased at an average annual rate of 1.4 percent, compared with 5.6 percent for state and local governments during the 1980s. This trend reversed in the 1990s, when private-sector spending on retirement income benefits increased at an average annual rate of 5.9 percent, while the rate of increase in this spending among state and local governments slowed to 1.8 percent.
- Employer spending on other benefits (i.e., unemployment insurance, life insurance, and workers' compensation) increased to \$100.7 billion in 2002 from \$78.6 billion in 1990, growing at an average annual rate of 2.1 percent.
- Employer spending on Social Security, Old-Age, Survivors, Disability, and Hospital Insurance (OASDHI), grew at an average annual rate of 9.8 percent in the 1980s, and 5.8 percent in the 1990s. In 1980, employers spent \$67.2 billion on the OASDHI program. This amount increased to \$170.8 billion in 1990 and to \$311.6 billion in 2002.

For more information, contact Ken McDonnell (202) 775-6342, or see EBRI's Web site at [www.ebri.org](http://www.ebri.org)  
Source: *EBRI Databook on Employee Benefits*, fourth edition, 1997; U.S. Department of Commerce, Bureau of Economic Analysis, tables from the *National Income and Product Accounts of the United States*.