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***Retirement Annuity and Employment-Based Pension Income, Among Individuals Age 50 and Over: 2006, p. 2***

***Finances of Employee Benefits, 1950–2006, p. 7***

***New Publications and Internet Sites, p. 11***

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***Executive Summary:***

***Retirement Annuity and Employment-Based Pension Income, Among Individuals Age 50 and Over: 2006***

- ***Demographics affect pension income:*** The most recent data from the March 2007 Current Population Survey confirm earlier findings that gender, marital status, age, education, and other demographic variables have a significant impact on the likelihood of a worker receiving a retirement annuity and/or employment-based pension income in retirement.
- ***Educational differences:*** In 2006, 27.5 percent of men age 50 and older with a graduate-level education received an annuity and/or pension income, compared with 21.7 percent of men without a high school diploma—a differential of almost 6 percentage points. Men with graduate-level degrees received nearly three times the median annuity and/or pension income of men without a high school diploma.
- ***Gender differences still big but shrinking:*** A woman age 65 or over in 2006 was almost two-thirds as likely to receive an annuity and/or pension payment as her male counterpart; if she did receive one, her mean benefit was likely to be about 65 percent of that received by a man in the same age group. However, as other EBRI research has shown, women’s participation in retirement plans has risen significantly relative to men in recent years, closing the “gender gap” in retirement plan participation—even though retirement plan participation has been declining for both men and women. Hence, the aggregate pension and annuity reciprocity for women and the amounts they receive are likely to increase over time as these younger generations retire.

***Finances of Employee Benefits, 1950–2006***

- ***Total spending:*** In 2006, both public and private employers spent a gross total of about \$2.33 trillion for major employee benefit programs. This is up almost 50 percent from 2000.
- ***Retirement still #1, but health catching up fast:*** Of the 2006 total spent on benefits, *retirement benefit payments* of \$1.17 trillion accounted for 50.0 percent of total benefit payments, and *health benefit payments* of \$1.01 trillion accounted for 43.5 percent. Health costs are growing fast and are likely to soon outstrip retirement and become the major source of benefits expense.

# Retirement Annuity and Employment-Based Pension Income, Among Individuals Age 50 and Over: 2006

By Ken McDonnell, EBRI

## Introduction

This analysis looks at one slice of the income pie of the older population: retirement annuities and employment-based pensions. It analyzes the population of those age 50 and over in order to take into account the prevalence of early retirement options available to individuals beginning at age 50. Recent data from the March 2007 Current Population Survey, conducted by the U.S. Census Bureau, confirm earlier findings that gender, marital status, age, education, and other demographic variables have a significant impact on the likelihood of a worker receiving a retirement annuity and/or employment-based pension income in retirement.<sup>1</sup> There may also be a strong correlation between these same variables and the amount of pension income received from public- and/or private-sector employment-based retirement plans.<sup>2</sup>

For example, in 2006, 27.5 percent of men age 50 and older with a graduate-level education received an annuity and/or pension income, compared with 21.7 percent of men without a high school diploma—a differential of 5.8 percentage points (Figure 1). While notable, this differential in *receipt* of an annuity

Figure 1  
**Pension and Annuity Income Reciprocity, Males Over Age 50:  
 Percentage Receiving Pension and Annuity Income, With Mean and  
 Median Pension and Annuity Income, by Various Characteristics, 2006**

	Percentage Receiving Pensions and Annuities	For Those Receiving Pensions and Annuities	
		Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Total Age 50 and Over	25.1%	\$19,062	\$14,280
Industry Sector			
Private sector	15.6	14,569	10,800
Public sector	8.4	26,185	22,000
Age			
Ages 50–55	5.5	21,893	18,000
Ages 56–60	14.8	23,078	20,400
Ages 61–64	29.5	23,160	18,000
Ages 65–67	37.6	19,893	14,400
Ages 68–70	41.3	18,159	13,200
Ages 71–75	47.0	17,850	13,020
Ages 76–79	46.6	16,084	12,000
Ages 80 and over	49.6	14,811	10,680
Ages 65 and over	44.6	17,200	12,108
Educational level			
No high school diploma	21.7	10,555	8,400
High school diploma to associate's degree	26.0	16,457	13,200
Bachelor's degree	23.9	25,549	21,600
Graduate degree	27.5	30,112	25,000
Marital status			
Married	26.1	19,842	14,400
Widowed	45.1	14,692	10,200
Divorced or separated	16.7	17,339	12,384
Never married	13.2	19,733	14,400
Income Quintile			
Lowest	8.4	5,075	4,000
Second	28.6	7,582	6,000
Middle	37.3	15,609	14,400
Fourth	26.0	26,050	24,627
Highest	22.6	35,456	30,500

Source: Employee Benefit Research Institute tabulations of the March 2007 Current Population Survey.

For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, [www.ebri.org/pdf/publications/books/databook/DB.Chapter.08.pdf](http://www.ebri.org/pdf/publications/books/databook/DB.Chapter.08.pdf)

and/or pension income pales in comparison with the differential in the *amounts* these men received: In 2006, men with graduate-level degrees received nearly three times the median<sup>3</sup> annuity and/or pension income that was received by men without a high school diploma (calculated from Figure 1). Figure 1 also shows how age, education, marital status, and income are related to annuity and/or pension reciprocity and to the amounts males received in 2006; Figure 2 shows the same data for females.

**Figure 2**  
**Pension and Annuity Income Reciprocity, Females Over Age 50:**  
**Percentage Receiving Pension and Annuity Income, With Mean and**  
**Median Pension and Annuity Income, by Various Characteristics, 2006**

Characteristics	Percentage Receiving Pensions and Annuities	For Those Receiving Pensions and Annuities	
		Mean annual income from pensions and annuities	Median annual income from pensions and annuities
Total Age 50 and Over	17.8%	\$12,971	\$7,848
Industry Sector			
Private sector	10.0	9,320	5,000
Public sector	6.8	17,378	12,348
Age			
Ages 50–55	3.4	17,005	9,600
Ages 56–60	12.0	19,062	12,000
Ages 61–64	18.0	15,952	10,670
Ages 65–67	22.9	14,130	9,000
Ages 68–70	25.6	13,657	9,096
Ages 71–75	29.7	10,073	6,400
Ages 76–79	29.8	10,110	6,468
Ages 80 and over	31.1	10,157	6,000
Ages 65 and over	28.4	11,142	7,092
Educational level			
No high school diploma	14.2	6,801	4,472
High school diploma to associate's degree	17.8	10,095	6,552
Bachelor's degree	17.6	20,911	15,756
Graduate degree	24.4	24,621	20,000
Marital status			
Married	12.0	13,519	8,472
Widowed	33.6	11,702	7,020
Divorced or separated	15.0	13,026	8,000
Never married	17.0	19,157	15,576
Income Quintile			
Lowest	3.5	2,394	1,884
Second	9.7	3,569	2,400
Middle	25.9	6,075	4,800
Fourth	25.7	12,568	11,244
Highest	18.7	29,166	24,000

Source: Employee Benefit Research Institute tabulations of the March 2007 Current Population Survey. For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, [www.ebri.org/pdf/publications/books/databook/DB.Chapter.08.pdf](http://www.ebri.org/pdf/publications/books/databook/DB.Chapter.08.pdf)

## Gender

Gender is a particularly strong factor in retirement annuity and/or employment-based pension income reciprocity. Figure 1 shows that in 2006, 44.6 percent of men age 65 and over received annuity and/or pension income, with a mean amount of \$17,200 per year. Figure 2 shows that only 28.4 percent of women age 65 and over received annuity and/or pension income that year, with mean pension income of \$11,142. Hence, a woman age 65 and over in 2006 was almost two-thirds (63.7 percent) as likely to receive an annuity and/or pension payment as her male counterpart. If she did receive one, her mean benefit was likely to be about 65 percent of that received by a man in the same age group (calculated from Figures 1 and 2).

Women age 50 and over in 2006 were born in 1956 at the latest. They are therefore part of a cohort of women who, on average, spent fewer years in the labor force than younger cohorts. Because of relatively lower labor-force participation rates, women in the older age group are more likely to receive pension income through their husbands, as spouses or survivors, than through their own savings or

employment. Widows had the largest proportion of women age 50 and over receiving annuities and/or pensions in 2006, at 33.6 percent (Figure 2).

Widows received the lowest mean and median retirement annuity and/or pension income amounts among women of any marital status (Figure 2). In 2006, the mean annuity and/or pension income for widows was \$11,702, compared with \$19,157 for women who were never married (Figure 2).

On average, younger women today spend less time in the work force than men of similar ages and tend to have lower-paying jobs, a situation due in large part to leave taken from work to provide family caregiving. However, on average, today's younger women tend to spend more time in the work force than did women who were age 50 and over in 2006. As other EBRI research has shown, women's participation in retirement plans has risen significantly relative to men in recently years, closing the "gender gap" in retirement plan participation (see *EBRI Issue Brief*, no. 311, "Employment-based Retirement and Pension Plan Participation: Geographic Differences and Trends, 2006," November 2007); however, retirement plan participation has been declining for both men and women. Hence, the aggregate pension and annuity reciprocity for women and the amounts they receive are likely to increase over time as these younger generations retire. However, women older than age 50 who are in the lowest income quintiles may continue to be least likely to receive annuity and/or pension income.

Demographic characteristics such as education, marital status, and income remained steady indicators of the likelihood and amount of annuity and/or pension reciprocity from 1975 through 2006 (Figures 3, 4, and 5).

**Figure 3**  
**Percentage of Population Over Age 50 Receiving Pension and Annuity Income, by Various Characteristics, Selected Years, 1975–2006**

Characteristics	1975	1980	1985	1990	1995	2000	2006
Total Age 50 and Over	15.3%	18.0%	21.4%	24.2%	24.0%	21.8%	21.2%
Industry Sector							
Private sector	9.4	10.9	13.6	15.0	14.8	13.5	12.6
Public sector	6.2	7.4	8.3	9.7	8.3	7.5	7.5
Age							
Ages 50–55	4.6	5.6	6.1	6.6	5.9	4.8	4.4
Ages 56–60	9.4	10.8	13.3	15.8	14.3	13.7	13.4
Ages 61–64	16.1	20.6	23.8	28.0	25.9	23.4	23.5
Ages 65–67	25.8	29.1	31.8	37.1	34.2	32.3	30.1
Ages 68–70	26.5	29.0	34.1	38.4	37.2	36.2	32.7
Ages 71–75	25.4	29.2	32.5	39.2	38.0	36.4	37.4
Ages 76–80	21.7	24.1	28.8	34.6	36.2	36.1	37.1
Over age 80	17.7	21.1	25.0	30.2	31.5	33.1	37.9
Over age 65	23.8	26.9	30.7	36.1	35.4	34.8	35.4
Gender							
Male	19.2	24.6	28.9	32.5	30.6	26.1	25.1
Female	11.4	12.4	15.1	19.2	18.4	18.1	17.8
Educational level							
No high school diploma	13.1	15.2	18.7	22.0	20.0	18.3	17.8
High school diploma to associate's degree	15.7	18.4	21.3	25.6	24.1	22.3	21.4
Bachelor's degree	24.6	25.5	27.8	31.0	28.2	22.0	20.8
Graduate degree	24.7	29.5	31.0	31.5	30.6	25.9	26.2
Marital status							
Married	14.9	17.4	20.3	24.1	22.9	20.1	19.7
Widowed	17.1	21.3	26.4	31.8	31.9	33.2	35.8
Divorced or separated	10.7	12.0	15.1	19.0	17.9	16.1	15.7
Never married	19.6	20.4	24.7	26.4	21.3	19.3	15.0
Income Quintile							
Lowest	1.9	1.9	2.9	4.0	4.0	4.0	5.0
Second	4.3	6.9	9.9	15.1	13.5	13.6	16.0
Middle	20.9	28.0	32.2	35.3	33.9	35.0	32.8
Fourth	25.7	30.4	35.8	40.0	39.3	30.9	25.9
Highest	15.8	19.4	22.5	27.5	25.4	21.3	22.1

Source: Employee Benefit Research Institute tabulations of the March 1976, 1981, 1986, 1991, 1996, 2001, and 2007 Current Population Survey. For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, [www.ebri.org/pdf/publications/books/databook/DB\\_Chapter\\_08.pdf](http://www.ebri.org/pdf/publications/books/databook/DB_Chapter_08.pdf)

## Age

The likelihood of receiving an annuity and/or pension income increases with age, until the oldest age group (those age 80 and over), where data show a lower percentage receiving annuity and/or pension income (Figures 3). However, the percentage of individuals age 80 and over receiving annuity and/or pension income increased from 17.7 percent in 1975 to 37.9 percent in 2006.

It is also worth noting that, although only 17.8 percent of persons ages 50–60 in 2006 were receiving annuity and/or pension income, those recipients had mean and median incomes that were greater than those received by persons over age 60 (Figures 3, 4, and 5). These data suggest that many persons who retired early may have done so because they were eligible for early retirement benefits and/or were able to purchase a sizable annuity, and therefore no longer needed to work for financial reasons. However, it is also likely that some persons age 50–60 receiving retirement annuity and/or employment-based pension income were forced out of the labor force involuntarily—by disability or layoffs—and consequently had to settle for below-average pension incomes.

**Figure 4**  
**Median Annual Income From Pensions and Annuities in Constant 2006 Dollars for the Population Over Age 50, by Various Characteristics, Selected Years, 1975–2006**

Characteristics	1975	1980	1985	1990	1995	2000	2006
Total Age 50 and Over	\$ 8,993	\$8,563	\$8,454	\$9,255	\$9,524	\$10,537	\$11,340
Industry Sector							
Private sector	6,745	6,117	6,318	6,478	6,873	7,024	8,148
Public sector	14,614	14,680	14,614	14,613	16,017	16,859	17,974
Age							
Ages 50–55	14,989	13,701	15,536	14,653	14,945	15,454	14,400
Ages 56–60	14,614	13,256	14,062	14,160	16,382	16,390	16,800
Ages 61–64	11,178	11,744	11,242	11,698	14,308	15,102	15,576
Ages 65–67	8,993	8,397	8,993	9,563	9,006	11,707	12,000
Ages 68–70	8,364	7,193	7,494	8,616	9,524	10,607	11,676
Ages 71–75	6,970	6,929	6,498	7,712	8,244	9,736	9,900
Ages 76–80	6,745	6,117	6,530	6,849	6,834	8,429	8,986
Over age 80	6,715	6,156	5,670	6,170	6,350	7,024	7,919
Over age 65	7,599	7,085	6,850	7,842	7,937	9,090	9,660
Gender							
Male	10,342	10,716	11,075	12,264	12,699	14,049	14,280
Female	7,120	5,608	5,621	6,071	6,350	7,038	7,848
Educational level							
No high school diploma	6,655	5,872	5,621	5,553	5,667	5,774	6,000
High school diploma to associate's degree	10,335	9,366	8,993	9,255	9,255	9,834	9,600
Bachelor's degree	15,738	13,821	14,633	16,548	15,287	16,802	19,200
Graduate degree	19,860	15,903	20,031	21,471	24,435	24,304	24,000
Marital status							
Married	9,990	9,786	0,234	10,782	11,112	12,644	13,200
Widowed	6,693	5,872	5,621	6,040	6,350	7,024	7,320
Divorced or separated	8,600	7,340	8,761	9,255	9,524	10,677	10,670
Never married	11,084	8,808	9,668	10,365	9,797	11,707	14,832
Income Quintile							
Lowest	2,248	2,897	1,836	2,018	2,318	2,810	2,400
Second	3,196	2,642	2,402	2,554	2,333	2,810	3,432
Middle	4,733	4,947	5,239	5,553	5,762	7,024	8,304
Fourth	11,242	11,538	11,714	12,957	13,144	15,861	18,000
Highest	20,842	21,662	21,809	23,445	26,707	29,502	30,000

Source: Employee Benefit Research Institute tabulations of the March 1976, 1981, 1986, 1991, 1996, 2001, and 2007 Current Population Survey. For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, [www.ebri.org/pdf/publications/books/databook/DB.Chapter.08.pdf](http://www.ebri.org/pdf/publications/books/databook/DB.Chapter.08.pdf)

## Industry Sector

While fewer individuals age 50 and over received pension income from a public-sector plan (7.5 percent) than from a private-sector plan (12.6 percent) in 2006, the median amount an individual received from a public-sector plan (\$17,974) was considerably larger than that received by a private-sector plan recipient (\$8,148) (Figures 3 and 4).

## Future Trends

Will today's workers have a steady income stream when they retire? This is an important policy question for government, employers, and employees alike. Current trends show future retirees may not have a steady income stream in retirement. Fewer employees are participating in a defined benefit (DB) plan, which, in the past, almost always paid benefits in the form of an annuity upon retirement. In today's work place, fewer employers are offering a DB pension benefit, and among those that do, an increasing number are offering a lump-sum distribution option at retirement. Also, increasing numbers of employees are participating in a defined contribution (DC) plan, primarily a 401(k) plan. While this trend has had a positive impact in that some workers who previously had no retirement plan at all now at least have access to a tax-favored plan, DC plans are far less likely to offer an annuity option to retirees than are DB plans. Since the overwhelming majority of current retirees with annuity income receive it from employer-provided DB pensions, and this benefit is shrinking in the private sector, it is unlikely that future retirees (meaning current workers) will receive annuity income unless they purchase an annuity with their own savings.

Figure 5  
**Mean Annual Income From Pensions and Annuities in Constant 2006 Dollars for Population Over Age 50, by Age, Gender, Industry Sector, Educational Attainment, Marital Status, and Income Quintile, Selected Years, 1975–2006**

Characteristics	1975	1980	1985	1990	1995	2000	2006
Total							
Age 50 and over	\$13,165	\$12,487	\$12,828	\$13,472	\$14,464	\$15,719	\$16,373
Industry Sector							
Private sector	9,450	8,983	9,808	10,042	10,716	11,729	12,373
Public sector	19,129	18,056	18,439	17,629	19,853	20,799	22,006
Age							
Ages 50–55	19,574	16,429	17,759	16,924	19,595	20,197	20,047
Ages 56–60	19,004	16,994	17,593	17,585	20,030	21,711	21,299
Ages 61–64	15,277	15,502	15,639	16,497	19,977	19,939	20,313
Ages 65–67	12,211	12,253	13,418	14,413	13,545	16,921	17,699
Ages 68–70	11,622	10,674	11,433	12,517	14,113	14,980	16,232
Ages 71–75	10,478	9,981	10,440	11,948	12,685	13,918	14,414
Ages 76–79	10,010	9,934	9,853	10,368	11,536	12,814	13,380
Ages 80 and over	10,012	9,175	8,334	9,279	9,778	11,151	12,385
Ages 65 and over	11,056	10,546	10,913	11,922	12,371	13,756	14,442
Gender							
Male	14,972	14,910	15,401	16,577	17,661	19,065	19,062
Female	10,051	8,401	8,695	9,062	9,942	11,049	12,970
Educational level							
No high school diploma	8,876	8,114	7,923	7,603	7,769	8,370	8,976
High school diploma to associate's degree	13,921	12,799	12,766	13,010	13,089	13,661	13,507
Bachelor's degree	20,585	20,071	20,263	21,170	21,344	22,866	23,634
Graduate degree	25,296	22,352	24,785	25,485	28,359	29,163	27,925
Marital status							
Married	14,544	14,041	14,707	15,127	16,383	17,938	18,109
Widowed	9,851	8,729	8,374	9,427	9,806	10,925	12,419
Divorced or separated	12,116	11,045	12,450	13,077	13,433	15,008	14,908
Never married	13,709	12,602	13,136	14,366	17,185	16,301	19,416
Income Quintile							
Lowest	3,218	3,079	2,685	2,723	2,856	3,200	3,262
Second	4,220	3,370	3,612	3,698	3,668	4,263	4,867
Middle	6,075	6,090	6,537	6,983	6,903	8,343	9,322
Fourth	12,944	12,640	13,121	13,936	14,496	17,043	18,852
Highest	25,710	25,445	26,479	27,703	30,768	34,264	33,916

Source: Employee Benefit Research Institute tabulations of the March 1976, 1981, 1986, 1991, 1996, 2001, and 2007 Current Population Survey. For other years of data, see the *EBRI Databook on Employee Benefits*, Chapter 8, [www.ebri.org/pdf/publications/books/databook/DB\\_Chapter\\_08.pdf](http://www.ebri.org/pdf/publications/books/databook/DB_Chapter_08.pdf)

According to data from Hewitt Associates,<sup>4</sup> in 2007 only 15 percent of surveyed employers that offered a 401(k) plan offered an annuity option to retirees, while 100 percent offered a lump-sum distribution option. Furthermore, according to the same Hewitt data, only 3 percent of retirees who were offered an annuity option in their 401(k) plan chose to take that option. Consequently, future retirees will likely be more reliant on assets they must manage themselves instead of receiving a stream of income for life (i.e., an annuity).



For further research on future retirees' income, see *EBRI Issue Brief*, no. 263, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model" (November 2003).

## Endnotes

<sup>1</sup> The data in this article were tabulated from the March Current Population Survey, published annually by the U.S. Census Bureau. Of all datasets reporting income of the older population, the March CPS allows the most detailed breakouts of individual incomes, allowing differences correlated with individual demographic characteristics such as age, gender, marital status, and education to be identified. However, there is some controversy surrounding the validity of the March CPS data in relation to its information about pension income and total income of the older population. For example, the 2006 National Income and Product Accounts (NIPA) survey reports more than \$197.2 billion more income from private pensions and \$144.8 billion more income from public pensions than the March CPS. Part of this disparity arises from NIPA's accounting of lump-sum distributions paid to younger workers as pension income. In addition, because some pension plans are administered by third parties or are paid out in lump-sum distributions and managed by another party or by the retiree (e.g., in the form of an individual retirement account (IRA), pension income may be misreported by respondents as coming from other sources (e.g., assets, personal savings). Nevertheless, although March CPS data may understate pension income, it does not necessarily follow that it underestimates total income of the elderly, especially if pension income is simply misreported as originating from other sources in the March CPS. However, the fact that NIPA reports \$73.8 billion more income from Old-Age, Survivors, and Disability Insurance (OASDI) than the March CPS suggests that the March CPS does not only underestimate pension income but may also underestimate total income received by the older population. The extent to which the March CPS underestimates total income or certain types of income is unknown because of the limitations in directly comparing the income of individuals using the CPS with that of other datasets.

<sup>2</sup> The term *employment-based pension income* refers to income coming from employment-based retirement plans (both defined benefit and defined contribution plans, including 401(k) plans) sponsored by both private- and public-sector employers, whether received in the individual's own name or as a survivor, as well as any income from individual retirement accounts (IRAs). *Annuities* are added because of the prevalence of lump-sum distributions from employment-based plans that could have been a source of these annuities. A retiree may take some or all of the lump-sum distribution and purchase an annuity. Data on annuities and IRAs are included in an attempt to give a complete picture of income generated from employment-based retirement plans throughout an individual's working career. According to data published in the January 2006 *EBRI Notes*, rollovers from 401(k) and other types of DC plans account for the largest share of IRA asset growth aside from market gains.

<sup>3</sup> The midpoint: 50 percent above and 50 percent below.

<sup>4</sup> Hewitt Associates LLC, *Survey Findings: Trends and Experience in 401(k) Plans: 2007* (Lincolnshire, IL: Hewitt Associates LLC, 2007).

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## ■ *Finances of Employee Benefits, 1950–2006*

*By Ken McDonnell, EBRI*

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, respectively, 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 article uses the latest data (for 2006) from the Bureau of Economic Analysis' (BEA) National Income and Product Accounts of the United States.

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 2006, Americans received a gross total of about \$2.33 trillion from major employee benefit programs. Of this amount, *retirement benefit payments* of \$1.17 trillion accounted for 50.0 percent of total benefit payments (Figure 1). Of that amount for retirement benefit payments, \$544.1 billion was paid by the Social Security Old-Age, Survivors and Disability Insurance (OASDI) program, \$331.8 billion by private pension and profit-sharing plans, and \$290.7 billion by public employer retirement plans, including those for federal civilian, state and local governments, railroad employees, and military personnel.

Figure 1  
Selected Payments to Individuals From the Employment-Based Benefits System, by Function, Selected Years 1950–2006

	1950	1960	1970	1980	1990	2000	2006
	(\$ billions)						
All Benefits	\$10.0	\$30.5	\$90.3	\$352.0	\$870.0	\$1,572.2	\$2,330.9
Retirement Income Benefits	2.7	16.8	50.7	201.8	481.9	862.9	1,166.6
Social Security Old-Age, Survivors, and Disability Insurance	1.0	11.1	31.4	118.6	244.1	401.2	544.1
Private employer pension & profit sharing	0.4	1.7	7.4	35.3	136.2	270.1	331.8
Public employer retirement plans	1.3	4.0	11.9	47.8	101.6	191.6	290.7
federal civilian employee retirement <sup>a</sup>	0.3	0.9	3.0	15.5	32.0	49.8	67.2
state and local government retirement	0.4	1.4	4.0	15.1	40.6	100.3	165.4
military retirement <sup>b</sup>	0.3	0.8	3.2	12.5	21.9	33.2	48.6
railroad retirement	0.3	0.9	1.7	4.8	7.2	8.3	9.5
Health Benefits	0.9	4.3	22.3	99.0	300.3	596.8	1,014.7
Medicare Hospital Insurance and Supplementary Medical Insurance	0.0	0.0	7.3	36.2	107.6	219.6	402.3
Group health insurance	0.9	4.3	14.8	62.4	191.2	376.0	609.9
Military health insurance <sup>c</sup>	0.0	0.0	0.2	0.4	1.5	1.2	2.5
Other Employee Benefits	6.5	9.4	17.3	51.2	87.8	112.5	149.6
Unemployment insurance <sup>d</sup>	1.5	3.1	4.2	16.1	18.2	20.4	30.4
Workers' compensation <sup>e</sup>	0.6	1.5	3.0	12.5	38.0	48.2	56.5
Group life insurance	0.3	1.1	2.9	6.6	12.3	17.0	20.2
Miscellaneous disability <sup>f</sup>	0.0	0.1	0.5	2.6	3.6	3.7	5.0
Veterans' benefits <sup>g</sup>	4.0	3.7	6.6	13.4	15.8	23.2	37.5

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](http://www.bea.gov/bea/dn/nipaweb/index.asp)

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

<sup>b</sup> Includes the U.S. Coast Guard.

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

<sup>d</sup> Consists of state, railroad employee, and federal employee unemployment benefits; special unemployment benefits; and supplemental unemployment benefits.

<sup>e</sup> Includes payments from private, federal, and state and local workers' compensation funds.

<sup>f</sup> Includes federal black-lung payments and payments from state and local temporary disability insurance.

<sup>g</sup> Consists of pension and disability, readjustment, and other veterans' benefits.

*Health benefit payments* of \$1.01 trillion accounted for 43.5 percent of total benefit payments (calculated from Figure 1). Sixty percent of this (or \$609.9 billion) was paid by private group health insurance programs, while 39.6 percent (\$402.3) 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 \$149.6 billion, or about 6.4 percent of total benefit payments in 2006.

## Employer Spending on Benefits

In 2006, employers spent \$1.42 trillion on major voluntary and mandatory employee benefit programs, including \$657.4 billion for retirement programs (46.3 percent), \$623.5 billion for health benefit programs (43.9 percent), and \$139.9 billion for other benefits (9.8 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.



**Figure 2**  
**Employer Outlays for Selected Employment-Based Benefits,**  
**by Function, Selected Years 1950–2006**

	1950	1960	1970	1980	1990	2000	2006
	(\$ billions)						
Total Compensation	\$155.2	\$296.5	\$617.0	\$1,651.1	\$3,337.5	\$5,781.1	\$7,446.5
Wages and Salaries <sup>a</sup>	147.3	272.8	551.5	1,377.4	2,754.0	4,829.2	6,025.7
All Benefits	8.0	23.6	65.5	273.7	583.5	952.6	1,420.8
Retirement Income Benefits	4.5	14.1	40.1	160.1	292.9	458.8	657.4
Social Security Old-Age, Survivors, and Disability Insurance	1.3	5.6	16.2	55.6	137.3	233.3	294.1
Private employer pension and profit sharing	1.7	4.9	13.1	55.3	63.8	113.5	189.7
Public employer retirement plans	1.5	3.7	10.8	49.2	91.8	112.0	173.6
federal civilian employee retirement <sup>b</sup>	0.3	0.8	2.0	15.9	28.7	41.3	52.2
state and local government retirement	0.5	1.8	5.1	19.1	33.0	39.6	63.3
military retirement <sup>c</sup>	0.3	0.8	3.2	12.5	27.5	28.2	55.3
railroad retirement	0.3	0.3	0.5	1.7	2.6	2.9	2.8
Health Benefits	0.7	3.4	14.6	73.0	211.9	399.6	623.5
Medicare Hospital Insurance	0.0	0.0	2.3	11.6	33.5	67.0	84.0
Group health insurance	0.7	3.4	12.1	61.0	176.9	331.4	537.0
Military medical insurance <sup>d</sup>	0.0	0.0	0.2	0.4	1.5	1.2	2.5
Other Employee Benefits	2.7	6.1	10.8	40.6	78.6	94.2	139.9
Unemployment insurance <sup>e</sup>	1.5	3.0	3.8	17.2	24.5	29.8	45.3
Workers' compensation	1.0	2.0	4.6	19.3	46.9	52.0	79.2
Group life insurance	0.3	1.1	2.4	4.1	7.2	12.4	15.4

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](http://www.bea.gov/bea/dn/nipaweb/index.asp)

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

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

<sup>c</sup> Includes the U.S. Coast Guard.

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

<sup>e</sup> Consists of state, railroad employee, and federal employee unemployment benefits; special unemployment benefits; and supplemental unemployment benefits.

Since 1950, the amount employers spent on benefits has grown as a share of total compensation relative to wages and salaries. After increasing in the 1950s by 213 percent, 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 slowed significantly to 63 percent (calculated from Figure 2). Employers spent \$1.42 trillion, or 19.1 percent of total compensation, for employee benefits (not including paid leave) in 2006. This compares with \$273.7 billion, or 16.6 percent of total compensation in 1980, and \$8.0 billion or 5.2 percent of total compensation in 1950 (calculated from Figure 2).

Employer spending on wages and salaries increased in the 1950s at an average annual rate of 6.4 percent, 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 1950s, 1960s, and 1970s, 17.1 percent, 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 1950, health benefits accounted for 8.8 percent of all benefit spending, retirement benefits 56.3 percent, and other benefits 33.8 percent. By 2006, health benefits accounted for 43.9 percent of all benefit spending, retirement benefits 46.3 percent and other benefits 9.8 percent (calculations based on data in Figure 2).

### Individual Spending on Benefits

Individuals paid \$665.1 billion into the benefit system in 2006. Personal contributions to retirement income benefits, including contributions to Social Security OASDI and public-sector retirement plans, totaled \$346.3 billion (or 52.1 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) data on individual contributions to salary reduction plans (such as 401(k) plans) are included in the line item of personal savings. Personal savings is shown as a *net residual*, equal to personal income minus contributions to social insurance, personal tax and nontax payments, and personal outlays. In 2006, contributions to personal savings totaled \$38.8 billion.

Contributions to health benefits totaled \$279.6 billion (or 42.0 percent) in 2006. 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 1950–2006**

	1950	1960	1970	1980	1990	2000	2006
	(\$ billions)						
All Benefits and Savings	\$18.3	\$30.3	\$87.0	\$248.9	\$543.8	\$610.9	\$665.1
Retirement Income Benefits	2.4	7.9	21.6	67.1	156.7	269.5	346.3
Social Security Old-Age, Survivors, and Disability Insurance (OASDI)	1.3	5.6	16.2	55.6	136.4	231.3	291.9
Private employer pension & profit sharing	a	a	a	a	a	a	a
Public employer retirement plans	1.1	2.3	5.4	11.5	20.3	38.2	54.4
federal civilian employee retirement	0.4	0.8	1.9	3.8	4.5	10.9	19.1
state and local government retirement	0.4	1.2	3.1	7.1	14.6	25.8	33.7
railroad retirement	0.3	0.3	0.4	0.6	1.2	1.4	1.6
Health Benefits	0.8	1.8	7.8	27.4	87.5	172.8	279.6
Medicare Hospital Insurance	b	b	2.3	11.6	33.4	68.4	86.6
Medicare Supplemental Medical Insurance	b	b	1.1	3.0	10.7	20.4	43.8
Health insurance	0.8	1.8	4.4	12.8	43.4	84.0	149.2
Other Employee Benefits							
Unemployment insurance	0.0	0.0	0.0	0.1	0.2	0.1	0.4
Personal Savings <sup>c</sup>	15.1	20.6	57.6	154.3	299.4	168.5	38.8

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](http://www.bea.gov/bea/dn/nipaweb/index.asp)

<sup>a</sup> 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.

<sup>b</sup> Program not yet enacted.

<sup>c</sup> 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.

### Additional Data

For additional years of data, see the *EBRI Databook on Employee Benefits*, Chapter 2.

<http://www.ebri.org/publications/books/index.cfm?fa=databook>

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Buck Consultants. *National Health Care Trend Survey*. Eighteenth Edition, Second Half 2007. \$100. Buck Consultants, An ACS Company, Attn: Global Survey Resources, 500 Plaza Dr., Secaucus, NJ 07096-1533, (800) 887-0509 or (201) 553-6400, [www.bucksurveys.com](http://www.bucksurveys.com)

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### **Social Security Reform**

U.S. Government Accountability Office. *Social Security Reform: Issues for Disability and Dependent Benefits*. Order from GAO.

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