



EBRI News

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FOR IMMEDIATE RELEASE:
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Dec. 12, 2005
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New Research From EBRI:

Fast-Growing Health Care Costs Could Soon Become Largest Portion of Employers' Spending on Benefits

WASHINGTON—For decades, retirement costs accounted for the bulk of employers' total spending on benefits, but fast-growing health care costs are on track to become the largest portion of employers' total benefits outlays, the nonpartisan Employee Benefit Research Institute (EBRI) reported today.

A new EBRI study found that in 2004 retirement costs narrowly exceeded health care as the leading item of employers' total benefit spending—47.1 percent for retirement, 43.2 percent for health care, and 9.8 percent for all other benefits. The study also showed how the health-care share of total benefits spending has grown from 8.8 percent in 1950, to 26.7 percent in 1980, to 38.3 percent in 1990.

“While total retirement benefits currently constitute the largest single share of employer spending on benefits, health costs are growing fast, and are on a course that could soon make them the largest portion on benefits expense,” the study said.

As the health-care share of total employer benefits spending has increased, the percentage allotted to other benefits has fallen. Retirement spending accounted for 56.3 percent of employers' total benefits outlays in 1950, rose to 61.2 percent in 1970, and has been falling ever since. Other benefits (such as life insurance) accounted for one-third of employers' total benefit spending in 1950 but have fallen over time to less than 10 percent of the total now.

The figures include total spending for such *mandatory* programs as Social Security, Medicare, and workers' compensation, as well as other benefits (such as health care and retirement plans) *voluntarily* offered by many employers. The findings are published in a December 2005 *EBRI Notes* article, “Finances of Employee Benefits: Health Costs Drive Changing Trends.” The publication is available on the Web at www.ebri.org.

Health care already accounts for the largest share of spending on benefits that employers *voluntarily* provide to workers, the study said. The shift took place between 1980 and 1990. In 1980, retirement benefits accounted for 61.6 percent of employers' spending for voluntary benefits, compared with 36.0 percent for health care.

But by 1990, employer spending on health care hit 52.1 percent of voluntary benefits costs, compared with 45.8 percent for retirement outlays. The difference was even greater in 2004: 57.4 percent for voluntary health care benefits, compared with 41.2 percent for voluntary retirement plans.

Wages and salaries remain by far the largest share of employers' *total compensation* costs, but the percentage has been declining over the years, the study found. In 2004, wages and salaries accounted for 81 percent of total compensation costs, compared with 95 percent in 1950. Over that same time, the percentage of total compensation going for retirement went from 3 percent to 9 percent, while the percentage allotted to health care rose from one-half of 1 percent to 8 percent.

The study provided these additional numbers for 2004:

- Americans received a gross total of about \$2.08 trillion from major employee benefit programs.
- Employers spent \$1.3 trillion on major voluntary and mandatory employee benefit programs.
- Individuals paid \$693.0 billion into the benefit system in total personal spending.

Founded in 1978, EBRI is an independent nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. EBRI does not take policy positions on legislation and does not lobby.

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