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# EMPLOYEE COMPENSATION

Employer Spending on  
Benefits Has Grown  
Faster Than Wages,  
Due Largely to Rising  
Costs for Health  
Insurance and  
Retirement Benefits





Highlights of [GAO-06-285](#), a report to congressional requesters

## Why GAO Did This Study

Because most workers rely primarily on their employers to provide both wages and benefits as part of a total compensation package, the trends in the costs and availability of employer-sponsored compensation have a significant bearing on workers' well-being.

Through tax preferences and payroll taxes, federal government policy also has a bearing on employees' access to benefits and on the costs carried by employers. The federal government provides significant tax subsidies for both health insurance plans and qualified retirement plans. In addition, workers and employers are required to pay taxes that fund Social Security and Medicare, programs intended to help provide for workers' economic security and peace of mind in retirement.

In this report, GAO examined federal data on private employers' costs for active workers and sought perspectives from 17 experts to identify (1) recent trends in employers' total compensation costs; (2) composition of the trends; (3) whether employees' costs, participation, or access to benefits changed; and (4) possible implications of the changes for private systems.

GAO received technical comments from the Departments of Labor and Health and Human Services and from some of the experts GAO consulted. These comments were incorporated as appropriate.

[www.gao.gov/cgi-bin/getrpt?GAO-06-285](http://www.gao.gov/cgi-bin/getrpt?GAO-06-285).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd R. Nilsen at (202) 512-7003 or [nilsens@gao.gov](mailto:nilsens@gao.gov).

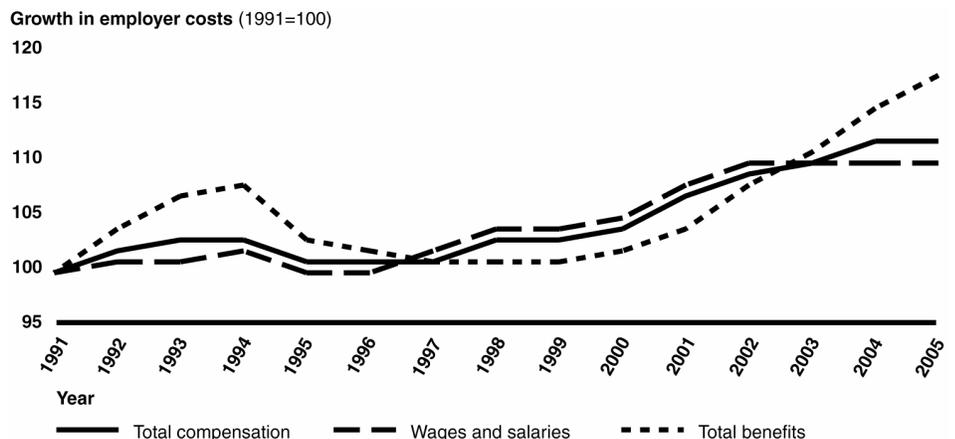
## EMPLOYEE COMPENSATION

# Employer Spending on Benefits Has Grown Faster Than Wages, Due Largely to Rising Costs for Health Insurance and Retirement Benefits

## What GAO Found

Private employers' average real cost of total compensation (comprising wages and benefits) for current workers grew by 12 percent between 1991 and 2005. The real costs of benefits grew by close to 18 percent, while real wages grew by 10 percent. Wages and benefits increased by about the same percentage for most of the period until 2002, after which time real wages began to stagnate and real benefit costs continued to grow.

### Growth in Real Employer Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005



Source: GAO presentation of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

The increase in the cost of a total benefits package from 1991 to 2005 was largely composed of increases in health insurance and retirement income costs. Paid leave had been the most costly benefit to employers, but by 2005, the cost of health insurance equaled that of paid leave. In comparison to paid leave and health insurance, retirement income was the least costly, but it grew by an estimated 47 percent.

During the time under review, employees' access to most benefits remained stable, but participation rates declined for health benefits as the real dollar amount of the premiums increased. Between 1991 and 2003, roughly half of all workers participated in employer-provided retirement plans. Holidays and vacations were generally available to most workers, but a smaller percentage of workers had access to personal and sick leave.

A panel of experts from a variety of backgrounds agreed that rising benefit costs are forcing private employers and their employees to make increasingly difficult trade-offs between wages and benefits. They noted that the employer-sponsored system of benefits in its current form may be unsustainable, largely because productivity growth is unlikely to support the rising costs of some benefits, especially escalating health insurance costs.

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# Contents

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<b>Letter</b>		1
	Results in Brief	3
	Background	5
	Average Compensation Costs Grew by 12 Percent between 1991 and 2005, with Benefits Outgrowing Wages by 8 Percentage Points	8
	The Increase in Employers' Cost of Benefits Was Largely Composed of Increases in the Cost of Health Insurance and Retirement Benefits	12
	Employees' Access to Benefits Remained Generally Stable, but Employees Face Greater Costs and Assume More Investment Risk	17
	Experts Agreed That Rising Benefit Costs Are Forcing Private Employers and Their Employees to Make Trade-Offs between Wages and Benefits	24
	Concluding Observations	26
	Agency Comments	27
<b>Appendix I</b>	<b>Scope and Methodology</b>	28
<b>Appendix II</b>	<b>Employers' Real Hourly Costs for Employee Total Compensation, Wages, and Total Benefits</b>	35
<b>Appendix III</b>	<b>Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance</b>	49
<b>Appendix IV</b>	<b>GAO Contacts and Acknowledgments</b>	54
<b>Tables</b>		
	Table 1: Employers' Real Average Hourly Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005	8

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Table 2: Growth in Employers' Real Hourly Costs for Employee Total Compensation, Wages, and Total Benefits by Employer Type, 1991 to 2005	11
Table 3: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance, 1991 to 2005	13
Table 4: Percentage Changes in Employers' Hourly Costs of Employee Paid Leave, Retirement Income, and Health Insurance for All Workers by Employer Type, 1991 to 2005	16
Table 5: Participation in Employer-Provided Defined Benefit and Defined Contribution Retirement Plans for All Workers and Full-time Workers, 1990 to 2003	22
Table 6: Percent of Workers Offered Employer-Provided Paid Leave, 1990 to 2003	23
Table 7: Private Industry Sectors and the Industries within those Sectors	30
Table 8: Employers' Real Hourly Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005	35
Table 9: Employers' Real Hourly Costs of Employee Total Compensation for All Workers by Establishment Size, 1991 to 2005	36
Table 10: Employers' Real Hourly Costs of Employee Total Compensation for All Workers by Full- and Part-time Status, 1991 to 2005	37
Table 11: Employers' Real Hourly Costs of Employee Total Compensation for All Workers by Union Status, 1991 to 2005	38
Table 12: Employers' Real Hourly Costs of Employee Total Compensation for All Workers by Industry Sector, 1991 to 2003	39
Table 13: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance for All workers, 1991 to 2005	49
Table 14: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Establishment Size, 1991 to 2005	50
Table 15: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Full-time and Part-time Status, 1991 to 2005	51
Table 16: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Union and Nonunion Status, 1991 to 2005	52

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Table 17: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Industry Sector, 1991 to 2003	53
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## Figures

Figure 1: Growth in Real Employer Hourly Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005	10
Figure 2: Growth in Real Hourly Employer Costs of Employee Paid Leave, Retirement Income, and Health Insurance for All Workers, 1991-2005	14
Figure 3: Eligibility and Participation in Employer-Provided Health Insurance for All Employees by Employer Characteristics, 1996 to 2003	19
Figure 4: Average Annual Real Premium for Employer-Provided Health Insurance of a Single Worker and Share Paid by Employees by Employer Characteristics, 1996 to 2003	20
Figure 5: Growth in Real Employer Costs of Employee Wages and Total Benefits for all Workers by Small Establishment Size, 1991 to 2005	40
Figure 6: Growth in Real Employer Costs of Employee Wages and Total Benefits for all Workers by Medium Establishment Size, 1991 to 2005	41
Figure 7: Growth in Real Employer Costs of Employee Wages and Total Benefits for all Workers by Large Establishment Size, 1991 to 2005	42
Figure 8: Growth in Real Employer Costs of Employee Wages and Total Benefits for Full-time Workers, 1991 to 2005	43
Figure 9: Growth in Real Employer Costs of Employee Wages and Total Benefits for Part-time Workers, 1991 to 2005	44
Figure 10: Growth in Real Employer Costs of Employee Wages and Total Benefits for Union Workers, 1991 to 2005	45
Figure 11: Growth in Real Employer Costs of Employee Wages and Total Benefits for Nonunion Workers, 1991 to 2005	46
Figure 12: Growth in Real Employer Costs of Employee Wages and Total Benefits for Workers in the Service Providing Sector, 1991 to 2003	47
Figure 13: Growth in Real Employer Costs of Employee Wages and Total Benefits for Workers in the Goods Producing Sector, 1991 to 2003	48

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## Abbreviations

AHRQ	Agency for Healthcare Research and Quality
BLS	Bureau of Labor Statistics
CPI-U-RS	Consumer Price Index Research Series
ECEC	Employer Costs for Employee Compensation
ECI	Employment Cost Index
MEPS	Medical Expenditure Panel Survey
MEPS IC	Medical Expenditure Panel Survey-Insurance Component
NAICS	North American Industry Classification System
NCS	National Compensation Survey
RSE	relative standard error
SIC	Standard Industrial Classification

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United States Government Accountability Office  
Washington, DC 20548

February 24, 2006

The Honorable Edward M. Kennedy  
Ranking Minority Member  
Committee on Health, Education, Labor  
and Pensions  
United States Senate

The Honorable Patty Murray  
Ranking Minority Member  
Subcommittee on Employment and  
Workplace Safety  
Committee on Health, Education, Labor  
and Pensions  
United States Senate

Trends in the costs and availability of employer-sponsored compensation—wages, health insurance, retirement income, and paid leave—have a significant bearing on U.S. workers and U.S. industry. Traditionally, employers used robust compensation packages to attract and retain talented workers in order to maintain their competitiveness. However, in today’s changing global environment, some employers are citing compensation costs as an obstacle to competing against foreign businesses where the cost of doing business is lower. As a result, employers, in the absence of sufficient growth in productivity, may alter compensation packages or ask workers to accept a greater responsibility for such costs in the future.

Through tax subsidies and payroll taxes, federal government policy also has a bearing on employees’ access to benefits and on the costs carried by employers. The federal government provides significant tax subsidies for both health insurance plans and qualified retirement plans. In offering these subsidies, the federal government seeks to promote health care and retirement income for individuals and families. In addition, workers and employers are required to pay taxes that fund various programs. These include Social Security and Medicare, programs intended to provide financial security in retirement, as well as contributions to the Unemployment Insurance program, which partially replaces income for workers who are involuntarily unemployed. In this way the private system of employer sponsored benefits works in tandem with social insurance programs to promote the well-being of workers and retirees.

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Given the significance of employer-sponsored compensation for the U.S. workforce and the economy, we have examined federal data on employee compensation for current workers in private industries to identify (1) recent trends in employers' total compensation costs—including both wages and benefits; (2) the composition of these trends; (3) whether employees' costs, participation, or access to benefits have changed; and (4) the possible implications of those changes for private systems.

Specifically, we examined data from two federal surveys: the Bureau of Labor Statistics' (BLS) National Compensation Survey (NCS) and the Agency for Healthcare Research and Quality's Medical Expenditure Panel Survey (MEPS). We used NCS data to determine trends in private employer costs for wages and salaries, total benefits (including those that employers are legally required to contribute to, such as Social Security), and specific employer-provided benefits—retirement income, health insurance, and paid leave—for 1991 through 2005. All data are from the first quarter of each year. Although employers spend funds on benefits and may change the benefit package based on cost increases to control spending, BLS characterizes its survey data as “costs” to employers. As such, we refer to costs to employers in our analysis. The NCS data reflect employers' costs for active employees and do not include costs for benefits employers may provide to retirees. We also used NCS data to examine trends in current employee participation in retirement plans and paid leave between 1990 and 2003.

We used MEPS data to determine for 1996 through 2003 the trends in current employees' access to and participation in health insurance benefits, and the premium cost to private employers and their employees. We examined cost and participation data in the aggregate and whenever possible by industry sector (goods-producing and service-providing), industry type (such as manufacturing), establishment size, workers' full-time and part-time status, and workers' union and nonunion status. The NCS measures costs per employee hour worked, and MEPS measures costs as an annual average. We report the data as they were measured. Because the data are for multiple years, we report all costs in 2004 dollars to adjust for inflation. In reviewing both NCS and MEPS data, we determined that they were reliable for our purposes.

In addition to examining data, we convened a panel of 17 experts representing the human resources field, industries, unions, and academia to discuss the trends in the cost and availability of worker benefits. We completed our work between May 2005 and December 2005 in accordance

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with generally accepted government auditing standards. For additional discussion of our scope and methodology, see appendix I.

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## Results in Brief

After controlling for inflation, the average cost of total compensation (comprising wages and benefits) for employers grew by 12 percent between 1991 and 2005, but increases in benefit costs outpaced wages in the most recent years. The real costs (inflation-adjusted) of total benefits, which represented roughly a quarter of total compensation, grew by approximately 18 percent, while real wages grew by 10 percent. Wages and benefits increased by about the same percentage from 1991 to 2002, after which time wages began to stagnate and benefit costs continued to grow. In addition, since 2002, increases in benefit costs outpaced wages among all types of employers. For example, increases in benefits surpassed those for wages for employers of both union and nonunion workers. However, regarding total compensation increases in costs varied by types of employers. Specifically, the increases in average total compensation costs were greater for employers with medium and large establishments, full-time workers, and union workers, as opposed to those with small establishments, part-time workers, and nonunion workers.

The increase in the cost of a total benefits package from 1991 to 2005 was largely composed of increases in the cost of providing health insurance and retirement income. In combination with paid leave, these benefits comprised almost 60 percent of benefit packages. Paid leave had traditionally been the most costly benefit to employers, but by 2005, the cost of health insurance equaled that of paid leave. This occurred, in part, because health insurance costs, adjusted for inflation, grew by 28 percent since 1991 while the costs for paid leave grew by only 5 percent. Of the three benefits, retirement income was the least costly, even though it grew by an estimated 47 percent during the period, largely between 2003 and 2005. In part, this rapid growth occurred because the stock market, bonds, and other investments were not delivering returns that allowed employers to maintain funding levels for defined benefits plans—those that guarantee a payout. Some benefit cost increases were greater for certain types of employers and employees. For example, while large establishments saw a 34 percent increase in health insurance costs between 1991 and 2005, medium-sized establishments saw an increase of 45 percent.

During the time under review, employees' access to benefits remained stable, but participation rates declined for health benefits, some costs have been shifted to employees, and they have assumed greater investment risk. Between 1996 and 2003, the percentage of employees at establishments that offered health insurance did not change and employers continued to

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pay approximately the same share of the premium for employee health insurance, but a smaller percentage of employees participated as the real dollar amount of the premiums increased. Some employees also saw increases in their deductibles and co-payments during this time, according to the expert panelists we convened. With regard to retirement, half of all workers participated in employer-provided retirement plans between 1991 and 2003, but the types of plans shifted more toward defined contribution plans, under which employees assume the investment risk. With regard to paid leave, holidays and vacations were generally available to most workers between 1991 and 2003, but a smaller percentage of workers had access to personal leave and sick leave.

A panel of experts from a variety of backgrounds (including human resources, industry, unions and academia) reviewed the trends we found in employee compensation and noted that rising benefit costs—increases in the cost of health insurance and retirement income—are forcing private employers and their employees to make trade-offs between wages and benefits. Maintaining health care and pensions is the main priority for workers, according to union representatives, who said that workers are foregoing wage increases in order to maintain benefits. Panelists discussed changes occurring in the types of employer-sponsored retirement and health care benefits offered and noted that trends in worker benefits are shifting toward increasing responsibility and risk to the employee. It was noted that these shifts will require increased education in order for employees to make informed decisions. Panelists discussed implications for increasing benefit costs for both employers and employees, noting that employers may try to remain competitive in a global environment by limiting increases in compensation, by locating some or all of their production activity overseas, and by using more contingent workers. It was also noted that businesses have concerns about their ability to take on long-term liabilities associated with certain benefit packages. The expert panelists noted that productivity growth is unlikely to support recent rising costs of benefits, and in the absence of any major changes, rising benefit costs are challenging employers' ability to offer health insurance and retirement income.

We requested comments on a draft of this report from the departments of Labor and Health and Human Services. We received technical comments from the Bureau of Labor Statistics and the Employee Benefits Security Administration at the Department of Labor and from the Agency for Healthcare Research and Quality at the Department of Health and Human Services. We also provided experts with the section of the draft that

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characterized the exchange at the expert panel. We incorporated comments where appropriate.

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## Background

Currently, U.S. workers rely primarily on their employers to provide both wages and benefits (such as paid leave, retirement, and health insurance) as part of a total compensation package, with wages comprising approximately 70 percent of total compensation. Of the benefits package employers provide to employees, almost one-third is mandated by law, and includes contributions to programs such as Social Security, Medicare, workers' compensation, and unemployment insurance, and other programs. The remaining portion of the benefits package is discretionary and typically includes paid leave, retirement income, and health insurance—some of the more costly benefits.

Over the last century, employer-sponsored benefits have become an increasingly important part of compensating workers. Prior to the turn of the 20th century, workers relied primarily on their own, their families', or the communities' resources in the event of a health or economic emergency. With the advent of the industrial revolution in the United States, unions began to offer disability and death coverage to workers in order to protect them against workplace risks of factory work. The tight labor market of World War II, along with Supreme Court rulings and federal legislation, helped make benefits a legitimate part of collective bargaining and, in part, fueled the offering of employer-sponsored benefits.

Outside the benefits that are legally required, those benefits that employers choose to provide serve a number of purposes. From a business perspective voluntary benefits assist employers to attract and retain highly skilled workers. For example, pension plans can be a means of attracting workers, reducing turnover, and encouraging productivity. Defined benefit pension plans, which are typically offered as periodic payments over a specified period beginning at retirement age, can be used to foster a worker's long-term commitment to his or her employer. Defined contribution pension plans, which are individual accounts to which employers and/or employees make contributions, may be attractive to employees who desire more portable benefits. In deciding to offer benefits, companies must assess the nature of their particular workforce to determine if offering benefits is a necessary employment inducement.

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Employers may also choose to sponsor benefit plans because of favorable federal tax treatment for certain forms of compensation.<sup>1</sup> To encourage them to establish and maintain pension plans, the federal government provides preferential tax treatment under the Internal Revenue Code for plans that meet certain requirements. A purpose of tax preferences for employer-sponsored pensions is to encourage savings for workers' retirement.<sup>2</sup> Pension tax preferences are structured to strike a balance between providing incentives for employers to start and maintain voluntary, tax-qualified pension plans and ensuring participants receive an equitable share of the tax-favored benefits. In fiscal year 2004, the federal government was expected to forgo an estimated \$95 billion in federal income tax revenue due to the tax exclusion for employer-sponsored pension plans.<sup>3</sup> Tax policies also contain significant tax benefits for employer-sponsored health insurance and medical care. Most notable, the tax exclusion for health care permits the value of employer-paid health insurance premiums to be excluded from employees' taxable earnings for income taxes. It also excludes the value of the premiums from the calculation of Social Security and Medicare payroll taxes for both employers and employees. The tax exclusion is credited with increasing health coverage for employees. The risk pooling under group health insurance allows employees to obtain insurance at lower costs than the individual insurance market.<sup>4</sup> The federal government was expected to

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<sup>1</sup>Employees in higher tax brackets have greater incentive to seek compensation through tax preferred benefits. See GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, [GAO-05-690](#) (Washington, D.C.: Sept. 23, 2005).

<sup>2</sup>While workers' cash earnings are taxed immediately, pension plan participants typically do not include their employer's or their own contributions (and the investment earnings on these contributions) to a qualified plan in determining their income tax liability until they receive benefits. The employer is also entitled to a current deduction (within certain limits) for contributions to a tax-qualified plan even though contributions are not currently included in an employee's income. See GAO, *Answers to Key Questions about Private Pension Plans*, [GAO-02-745SP](#) (Washington, D.C.: Sept. 18, 2002).

<sup>3</sup>This reflects the U.S. Department of the Treasury's estimates for defined benefit and defined contribution plans sponsored by all employers (including federal, state, and local governments). These estimates measure the income tax revenue loss from exempting employer contributions and pension investment earnings offset by taxes paid on current pension benefits. Employer pension contributions are also exempt from Social Security and Medicare payroll taxes.

<sup>4</sup>Some researchers believe that the unlimited availability of the exclusion for employer-provided health insurance has led to excessive use of health care services, which has helped to drive up health care prices faster than the overall price level.

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forgo an estimated \$153 billion in taxes in fiscal year 2004 due to the exclusion of employer contributions for health care.<sup>5</sup>

Recent developments are leading employers to make decisions about the provision of the employer-based benefits system. An aging population with longer life expectancies increases the long-term obligations of companies that provide defined benefit pension plans. Some companies have cited this obligation as a contributing reason for declaring bankruptcy, reorganizing, and terminating large plans of this type. Advances in expensive medical technology, increased use of high-cost services and procedures, and an aging population have contributed to escalating health care costs. Advances in other technologies have stepped up competition from foreign firms by increasing global competition. In response to such competition, U.S. firms have continued to look for ways to reduce their costs, such as offshoring and using contingent workers (many of whom are not offered benefits).

In addition to employer-sponsored benefits, multiple federal programs supplement workers' and retirees' benefits. For example, Social Security pays monthly cash benefits to more than 36 million eligible retired or disabled workers.<sup>6</sup> Intended to complement retirement incomes, in many cases Social Security may provide the only source of such retirement income. In addition, the federal-state Medicaid program provides health insurance to certain low-income individuals including older Americans in need of long-term care who meet financial eligibility and other requirements. Most recent figures show Medicare provides health insurance to 35 million individuals age 65 years and more than six million disabled individuals under age 65.<sup>7</sup>

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<sup>5</sup>This assumes payroll tax revenue losses amount to half of the \$102 billion in income tax revenue losses estimated by the U.S. Department of the Treasury.

<sup>6</sup>Recipients as of June 2005. Social Security also provides benefits to dependent survivors.

<sup>7</sup>See also GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: February 15, 2005) and *Older Workers: Demographic Trends Pose Challenges for Employers and Workers*, [GAO-02-85](#) (Washington, D.C.: Nov. 16, 2001).

**Average Compensation Costs Grew by 12 Percent between 1991 and 2005, with Benefits Outgrowing Wages by 8 Percentage Points**

Private employers' average cost of total compensation (comprised of wages and benefits) for current workers grew by 12 percent between 1991 and 2005, but benefit costs outpaced wages in the most recent years after controlling for inflation. The increases in average total compensation costs were greater for employers with medium and large establishments, full-time workers, and union workers, than for those with small establishments, part-time workers, and nonunion workers. The overall real costs of benefits grew by 18 percent, while real wages grew by 10 percent. Benefits represented more than a quarter of total compensation costs.

**While Growth in Compensation Costs Fluctuated between 1991 and 2005, Average Benefit Cost Increases Had Outgrown Average Wage Increases by the End of the Period**

On average, overall employers' inflation-adjusted cost for total compensation rose about 12 percent between 1991 and 2005. Both components of total compensation—wages and benefits—had also grown after adjusting for inflation, but at different rates. By the end of the period, the cost of total benefits grew by approximately 18 percent and wages had increased by 10 percent (see table 1). By 2005, benefits accounted for 29 percent of total compensation while wages made up 71 percent of the workers' compensation package.

**Table 1: Employers' Real Average Hourly Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005**

	1991	2005	Percentage change
Total compensation	\$20.83	\$23.39	<b>12</b>
Wages and salaries	\$15.07	\$16.60	<b>10</b>
Total benefits <sup>a</sup>	\$5.77	\$6.79	<b>18</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

Wages and total benefits may not add up to equal total compensation due to rounding.

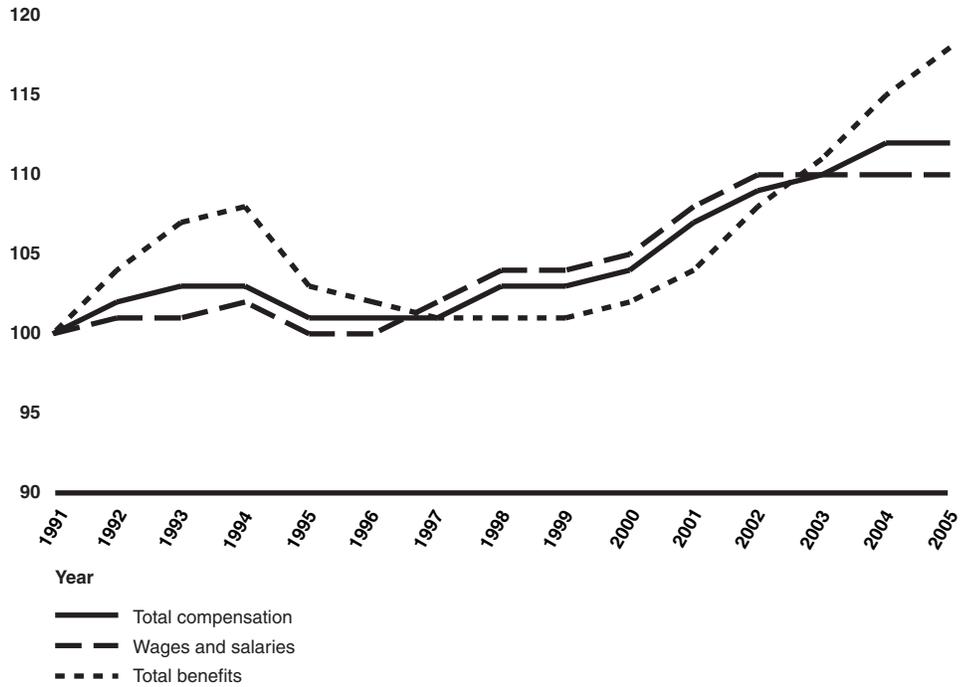
<sup>a</sup>The calculation of benefits includes total benefits tracked by BLS. These benefits include those to which employers are legally required to make contributions (Social Security, Medicare, federal and state unemployment, and workers compensation), and voluntary benefits (paid leave, supplemental pay, insurance plans—life and health, retirement and savings, and other benefits).

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Across the 15 years under examination, the cost of wages and benefits generally grew in tandem, albeit at different rates (see fig. 1). The noteworthy exception was after 2002 when benefit costs continued in a steep ascent and wages began to flatten, resulting in an almost 8 percentage point difference between the growth rates of the two. The recent divergence between benefits and wages is not unprecedented; there was a 6 percentage point difference between wage increases and benefit cost increases in 1994. However, what makes the divergence between the growth of wages and benefits after 2002 compelling is that it is preceded by a steady increase for both. The result, therefore, has been a significantly larger real dollar cost to employers—roughly \$1,000 more per year in benefit costs for each full-time employee—when comparing 1994 to 2005.

**Figure 1: Growth in Real Employer Hourly Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005**

Growth in employer costs (1991=100)



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Growth in each category between 1991 and 2005 is statistically significant at the 95 percent confidence level.

Data represent costs to private employers only.

The calculation of benefits includes total benefits tracked by BLS. These benefits include those to which employers are legally required to make contributions (Social Security, Medicare, federal and state unemployment, and workers compensation), and voluntary benefits (paid leave, supplemental pay, insurance plans—life and health, retirement and savings, and other benefits).

**Increases in the Costs of Benefits Outpaced Wage Growth among All Types of Employers, Although Average Cost Increases Varied**

As was the case in the aggregate, by 2005, growth in the real cost of benefits outpaced the increase in wages for each type of employer (see table 2). For employers of union workers this effect was even more pronounced; these employers experienced benefit cost increases greater than wage increases over most of the time period and saw several years of no growth in wages. This pattern of benefit growth outpacing wage growth rates was least pronounced for employers of part-time workers, but still true.<sup>8</sup> (See app. II, fig. 5 to 13 for all employers.)

**Table 2: Growth in Employers' Real Hourly Costs for Employee Total Compensation, Wages, and Total Benefits by Employer Type, 1991 to 2005**

In percent				
	Total compensation growth, 1991-2005	Wages growth, 1991-2005	Total benefit cost growth, 1991-2005	Benefits as a proportion of total compensation, 2005
Aggregate compensation	12	10	18	29
<b>Type of employer</b>				
Small establishments (1-99 workers)	8	7	12	26
Medium establishments (100-499 workers)	22	19	31	30
Large establishments (500+ workers)	21	17	31	33
Full-time workers	16	14	24	30
Part-time workers	13	12	15	21
Unionized workers	21	14	32	37
Nonunionized workers	13	11	20	28

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

<sup>8</sup>BLS began using new codes to classify industries with the 2004 data. Therefore, data comparable to 1991 to 2003 were not available by industry. Although we could not look at the data across the complete time period, for industry sectors, the trends appear to follow a similar pattern. For example, for employers in the service-providing sector, growth in wages flattened in 2002 while an increase in the cost of benefits continued (see app. II, fig. 12 and 13). Under the old industry codes, the goods-producing sector included the following industries: mining, construction, and manufacturing. The service-providing sector included the following industries: transportation and utilities; wholesale trade; retail trade; finance, insurance, and real estate; and services. Within the industry sectors the following industries showed statistically significant increases in wages: manufacturing (7 percent), retail trade (7 percent), and services (17 percent). The following industries showed statistically significant increases in total benefits: manufacturing (12 percent); wholesale trade (15 percent); finance, insurance, and real estate (34 percent); and services (18 percent).

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Notes: Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

Data represent costs to private employers only.

The growth rates for certain groups of employers may be higher than the aggregated average growth rate due to changes in employment composition and compensation cost levels overtime.

While employers uniformly saw average real benefit costs grow more than average real wages, the overall increase in total compensation varied by employer type. Employers at medium (100 to 499 workers) and large establishments (500 or more workers) experienced increases in total compensation costs of roughly 20 percent. In contrast, small establishments did not experience statistically significant increases in total compensation costs. Employers' total compensation costs for full-time workers increased by 16 percent as compared with the 13 percent increase for part-time workers. Employers of unionized workers saw their total compensation costs grow by 21 percent as compared to the 13 percent increase experienced by employers of nonunion workers.<sup>9</sup> (See app. II, tables 8 to 12 for all employers.)

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## The Increase in Employers' Cost of Benefits Was Largely Composed of Increases in the Cost of Health Insurance and Retirement Benefits

The increase in the cost of a total benefits package from 1991 to 2005 was largely composed of increases in the cost of providing health insurance and retirement income. Paid leave had traditionally been the most costly benefit to employers, but by 2005, the cost of health insurance equaled that of paid leave. Of the three benefits, retirement income was the least costly, even though it grew by an estimated 47 percent in real terms during the period, largely between 2004 and 2005.

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<sup>9</sup>Although 2004-2005 data for industry sectors are not comparable with earlier years, we did find that from 1991 to 2003 employers in the service-providing sector saw total compensation costs increase by 13 percent. This compares with an 8 percent increase in the goods producing sector. Only the manufacturing (8 percent); finance, insurance, and real estate (20 percent); and services (17 percent) industries showed statistically significant changes in total compensation.

**Employers' Costs for Health Insurance and Retirement Income Increased over 27 Percent between 1991 and 2005**

The increase in the real cost of a total benefits package from 1991 to 2005 was largely composed of increases in the real cost of providing health insurance and retirement income. (See table 3 and fig. 2.) Paid leave had traditionally been the most costly benefit to employers, but by 2005, the cost of health insurance equaled that of paid leave.<sup>10</sup> This occurred, in part, because health insurance costs grew by 28 percent while the costs for paid leave did not show significant growth during the period under study. Of the three benefits, retirement income was the least costly, even though it grew by an estimated 47 percent during the period, largely between 2004 and 2005. In combination with paid leave, these three benefits represented on average almost 60 percent of an employee's total benefit package and over 80 percent of employers' costs for voluntary benefits.<sup>11</sup>

**Table 3: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance, 1991 to 2005**

	1991	2005	Percentage change
Paid leave	\$1.42	\$1.49	5
Retirement income	\$0.59	\$0.87	<b>47</b>
Health insurance	\$1.24	\$1.59	<b>28</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

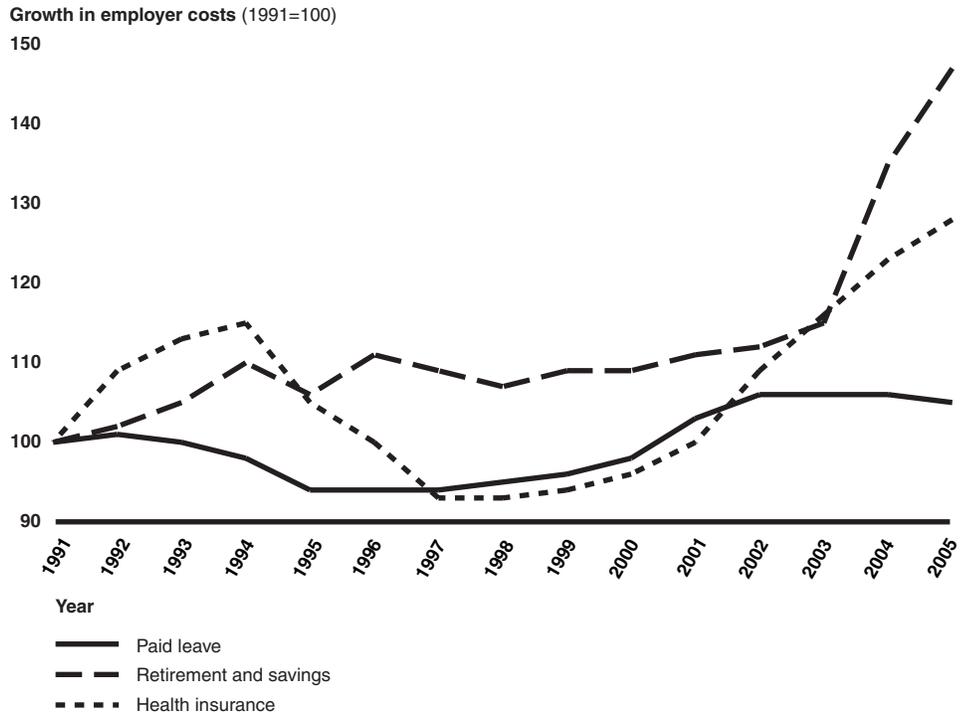
Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

<sup>10</sup>There was no statistically significant difference between the costs of paid leave and health insurance at the 95 percent confidence level. Paid leave costs are tied to wages and salaries since employees are generally paid at the same wage rate when using paid leave.

<sup>11</sup>Other voluntary benefits included in the National Compensation Survey include supplemental pay, life insurance, short-term and long-term disability, and other benefits, such as severance pay.

**Figure 2: Growth in Real Hourly Employer Costs of Employee Paid Leave, Retirement Income, and Health Insurance for All Workers, 1991-2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Growth in retirement income and health insurance between 1991 and 2005 are statistically significant at the 95 percent confidence level while the growth in paid leave is not.

Data represent costs to private employers only.

Expert panelists discussed underlying factors driving trends in real costs for employer-sponsored benefits from 1991 to 2003. Regarding trends in retirement income, an expert noted that employers decreased their contributions to funds for defined benefit plans during the 1990s, which was reflected in a decrease in employer spending for retirement income. According to the Bureau of Labor Statistics,<sup>12</sup> defined-benefit pension plan assets grew rapidly in the middle to late 1990s as the stock market continued to rise, so employers often did not need to contribute funds to defined-benefit pension plans. Stock prices generally fell from April 2000

<sup>12</sup>See Joseph R. Meisenheimer II, "Real Compensation, 1979 to 2003: analysis from several data sources," *Monthly Labor Review*, Volume 128, Number 5 (Washington, D.C.: Bureau of Labor Statistics, Department of Labor; May 2005).

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to February 2003,<sup>13</sup> and interest rates on bonds and other investments remained low, requiring employers to contribute more funding to defined-benefit plans beginning in 2003 to meet minimum funding requirements.<sup>14</sup> Recent increases in employer costs for retirement benefits can be attributed to a similar phenomenon. Legislation enacted in 2004—the Pension Funding Equity Act—provided 2-year relief for businesses, allowing contributions to be reduced compared to what would have otherwise been required.

In the case of health care benefits, in addition to increases in the cost of providing medical services, several factors were noted to drive trends in employer costs. These include the health insurance underwriting cycle, the emergence of managed care, competition, and consolidation in the health care industry. In the underwriting cycle, health insurance companies forecast premium costs and then set their prices either higher to maximize profitability or lower to maximize market share. In the early 1990s, managed care plans lowered their premium prices in order to increase market share, fueling price competition among health insurance companies. However, later in the decade, many plans moved away from tightly managed health care plans. As one expert noted, in the late 1990s, insurer consolidation and mergers led to a more concentrated industry. Research in this area suggests that many of the remaining plans shifted their strategies from gaining market share to improving profitability, stimulating premium increases and spurring the upward trend in costs for employers.<sup>15</sup>

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### For Most Employers, Retirement Income Showed the Greatest Percentage Increase

Most types of employers experienced the largest percentage increases in costs for retirement income compared to the growth in costs for health insurance and paid leave between 1991 and 2005 (see table 4). This was true for employers whether they had union or nonunion employees, or whether they employed part-time or full-time workers. Small establishments were the one exception; health insurance represented their greatest cost increase. Nevertheless, the real dollar costs for health

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<sup>13</sup>In commenting on this report, BLS reported that an additional reason for the change in retirement costs may be the way in which benefit cost levels are collected and calculated.

<sup>14</sup>Defined benefit plans are required to make an actuarial evaluation annually to determine their minimum funding requirements.

<sup>15</sup>See Joy M. Grossman and Paul B. Ginsburg, “As The Health Insurance Underwriting Cycle Turns: What Next?” *Health Affairs*, Volume 23, Number 6, (November/December 2004).

insurance and paid leave remained larger than retirement income costs for all employers.<sup>16</sup> Appendix III, tables 13 to 17 provide real costs for paid leave, retirement income, and health insurance for each employer characteristics between 1991 and 2005.<sup>17</sup>

**Table 4: Percentage Changes in Employers' Hourly Costs of Employee Paid Leave, Retirement Income, and Health Insurance for All Workers by Employer Type, 1991 to 2005**

	<b>Paid leave</b>	<b>Retirement income</b>	<b>Health insurance</b>
Aggregate	5	<b>47</b>	<b>28</b>
<b>Type of employer</b>			
Small establishment (1-99 workers)	1	12	<b>25</b>
Medium establishment (100-499 workers)	<b>20</b>	<b>61</b>	<b>45</b>
Large establishment (500+ workers)	<b>16</b>	<b>99</b>	<b>34</b>
Full-time workers	<b>12</b>	<b>55</b>	<b>34</b>
Part-time workers	-1	<b>48</b>	<b>32</b>
Union workers	<b>13</b>	<b>97</b>	<b>50</b>
Non-Union workers	7	<b>45</b>	<b>30</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

Data represent costs to private employers only.

<sup>16</sup>The one exception to this trend was for employers of union workers in 2005. For that year, the cost of retirement income was higher than paid leave. However, the cost of health insurance remained higher than both paid leave and retirement income.

<sup>17</sup>While comparable data covering the 2004-2005 period are not available for industry sectors, from 1991 to 2003 available data show the largest percentage increase in benefits costs for the goods-producing sectors was in health insurance. The growth in retirement income was largest for employers in the service-providing sector during this period.

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## Employees' Access to Benefits Remained Generally Stable, but Employees Face Greater Costs and Assume More Investment Risk

During the time under review, employees' access to benefits has remained stable, but participation rates declined for health benefits, some costs have shifted to employees, and they have assumed more investment risk. Between 1996 and 2003, the percentage of employees at establishments that offered health insurance did not change. Also, employers continued to pay approximately the same share of the premium for employee health insurance, but a smaller percentage of employees participated as the real dollar amount of the premiums increased. Some employees also saw increases in their deductibles and co-payments during this time, according to the expert panelists we convened. With regard to retirement income, half of all workers participated in employer-provided retirement plans between 1991 and 2003, but the types of plans shifted more toward defined contribution plans, under which employees assume the investment risk. With regard to paid leave, holidays and vacations were generally available to all workers between 1990 and 2003, but a smaller percentage of workers had access to personal leave and sick leave.

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## The Share of Health Care Premiums Paid by Employees and Employers Remained Relatively Stable, but Employee Participation Declined

Between 1996 and 2003, the percentage of employees who worked at establishments offering health insurance to their employees remained at about 87 percent.<sup>18</sup> However, the percentage of those employees eligible for the benefit decreased to 79 percent in 2003 (see fig. 3). Moreover, of those who were eligible, the percentage who participated in their companies' plans decreased from 86 to 80 percent. During this period, real premiums for health insurance for single workers increased by 34 percent—from an annual average of \$2,706 to \$3,633.<sup>19</sup> Employees' share of these premiums showed no statistically significant increase over the time period under review and ranged between 16 and 18 percent. However, their real dollar contribution increased from an annual average of \$465 to \$633, after adjusting for inflation. Some experts have noted that

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<sup>18</sup>Data presented on premiums, the percentage of workers at establishments offering health insurance, the percentage of workers eligible for health insurance at firms offering the benefit, and the percentage of eligible workers who enroll in the benefit are from the Medical Expenditure Panel Survey-Insurance Component (MEPS IC) and represent the years 1996 to 2003. The data used for this analysis did not allow us to assess the adequacy of coverage, or any change in quality. (See app. I for more details.)

<sup>19</sup>Premium costs presented here are for single workers coverage. Family coverage premiums increased by 43 percent between 1996 and 2003—from an annual average of \$6,732 to \$9,654. The real premium included both the employee's and employer's share. To control for the effect of inflation in health insurance premiums, dollars are reported in 2004 terms by using the BLS Consumer Price Index for Medical Care. Inflation in medical care has been great, and using an all items CPI would overstate the growth in premium costs.

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some employees' deductibles and co-payments also increased during this period.

The percentage of establishments offering insurance, the percentage of employees eligible, and the percentage of eligible employees enrolled ranged across all types of employers. This suggests that some employees were more likely to receive employer-sponsored health insurance than others (see fig. 3). For example, the percentage of employees who worked at small firms (1 to 9 employees) offering health insurance was 46 percent compared with 99 percent for those in firms of 1,000 or more employees. The same was true for the percentage of employees eligible to participate in the health insurance plans offered by companies. For example, of those employed part-time, 32 percent were eligible while 89 percent of those who worked full-time were eligible. This was also the case for participation among those eligible. For most types of employers, over 75 percent of eligible employees enrolled in the company's health plan. This trend was true across firm sizes, for most industries, and union status. The exception to this trend was in retail where the enrollment rate was 67 percent and for part-time workers at 48 percent.

**Figure 3: Eligibility and Participation in Employer-Provided Health Insurance for All Employees by Employer Characteristics, 1996 to 2003**

		Percentage of employees at establishments offering health insurance					
		Overall (2003)	Percentage change 1996-2003	Eligible for health insurance (2003)	Percentage change 1996-2003	Eligible for and enrolled in health insurance (2003)	Percentage change 1996-2003
<b>Aggregate</b>		87	0	79	-3	80	-6
<b>Firm size (employees)</b>	1 to 9	46	-3	82	-4	79	-3
	10 to 24	71	1	78	-5	77	-3
	25 to 99	84	-2	75	-5	77	-6
	100 to 999	96	0	77	-7	80	-7
	1,000+	99	0	80	-2	82	-7
<b>Full or part time status</b>	Full	90	0	89	-1	83	-5
	Part	76	6	32	-5	48	-26
<b>Union worker status</b>	Union	98	1	82	-5	87	-2
	Non	84	2	77	-7	79	-6
<b>Industry</b>	Mining	94	-1	94	-5	93	2
	Construction	76	3	81	5	80	-4
	Manufacturing	95	0	92	-2	88	-1
	Transportation and utilities	92	1	89	-3	86	-3
	Wholesale trade	92	1	88	0	86	-5
	Retail trade	83	2	62	-3	67	-16
	Finance, insurance, and real estate	91	-2	89	-4	85	-4
	Services	86	1	76	-3	79	-5

Aggregate

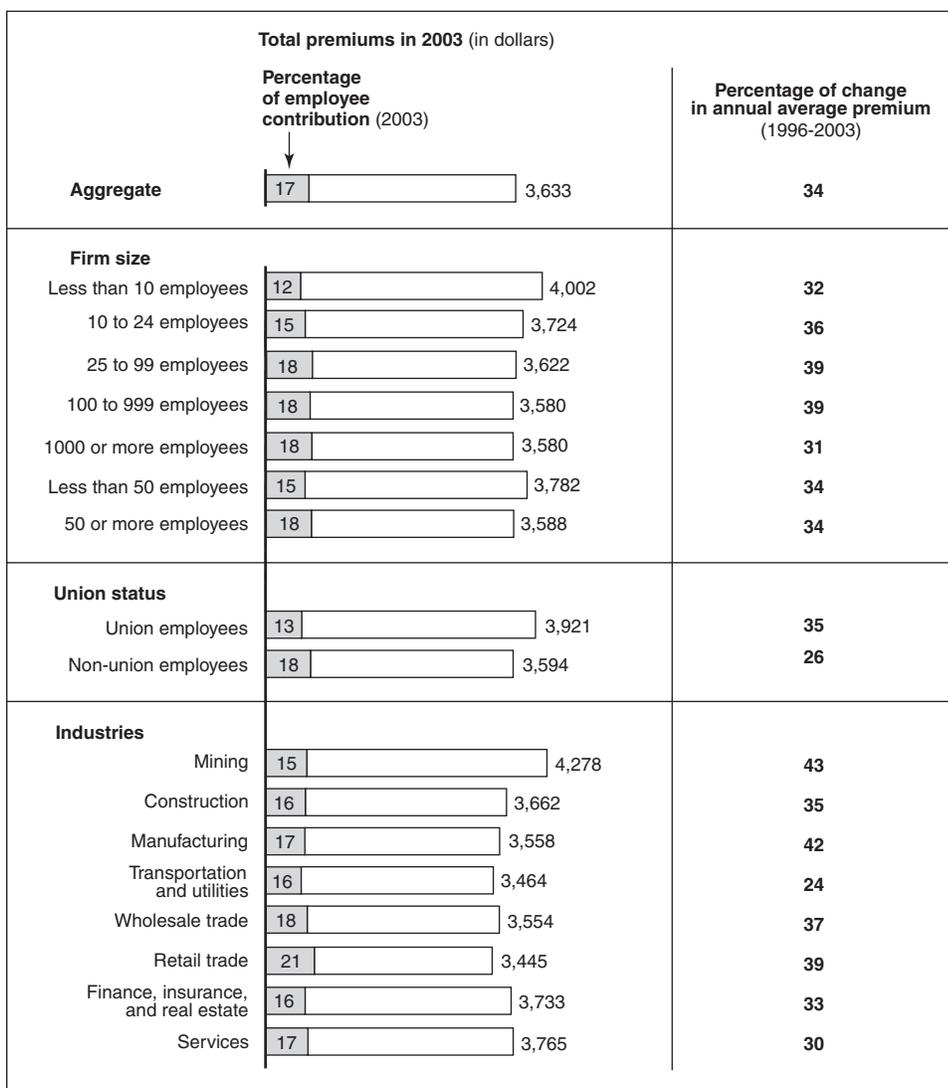
Source: GAO analysis of Agency for Healthcare Research and Quality (AHRQ) data from the Medical Expenditure Panel Survey (MEPS).

Note: Bold signifies that percentage changes between 1996 and 2003 are statistically significant at the 95 percent confidence level.

The health insurance premium increases seen overall were true for every type of employer regardless of characteristics, such as firm size or industry. For each type, the average annual single worker premiums increased between 1996 and 2003 by at least 24 percent (see fig. 4). By 2003, the average premium ranged between \$3,445 and \$4,278, after adjusting for inflation. The mining industry experienced the largest increase over the time period, while premiums for employers and workers in the transportation and utilities industry increased the least. Employees'

shares of these premiums ranged between 12 percent and 21 percent. At the high end of the range were employees in the retail industry, which also had one of the largest declines in enrollment across the period examined.

**Figure 4: Average Annual Real Premium for Employer-Provided Health Insurance of a Single Worker and Share Paid by Employees by Employer Characteristics, 1996 to 2003**



Source: GAO analysis of Agency for Healthcare Research and Quality (AHRQ) data from the Medical Expenditure Panel Survey (MEPS).

Notes: Bold signifies that percentage changes between 1996 and 2003 are statistically significant at the 95 percent confidence level.

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Premiums are measured as the annual average cost for employers and employees for single workers. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index for Medical Care. Data on premium amounts are not available by full- or part-time status.

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## About Half of Employees Had Access to Retirement Income Plans, with a Trend Toward Defined Contribution Plans

Employee participation in retirement plans did not change significantly between 1990 and 2003.<sup>20</sup> Roughly half of all workers participated in an employer-sponsored retirement plan, and closer to 60 percent of those who were full-time employees did so. However, there was a noticeable shift that occurred from defined benefit retirement plans to defined contribution plans (see table 5).<sup>21</sup> Employers who sponsor defined benefit retirement plans agree to make future payments during the employee's retirement. To meet this obligation employers are responsible for making contributions sufficient to fund promised benefits, investing and managing plan assets, and bearing the investment risk. Under defined contribution retirement plans, employers may make contributions but have no obligations regarding the future sufficiency of those funds. Thus, this shift from defined benefit to defined contribution plans shifts the responsibility for providing for one's retirement income to the employee. In addition, while participation in most defined benefit plans is automatic (depending on one's position), many defined contribution plans require employee contributions before the employer makes a contribution.<sup>22</sup>

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<sup>20</sup>Data on the availability of retirement and paid leave benefits to employees are from the BLS' National Compensation Survey. Available data did not allow us to assess the adequacy of the retirement income available to plan participants.

<sup>21</sup>For this analysis, we relied on previous analysis issued by BLS that did not include trends across time by industry, for union or nonunion workers, or part-time workers. See William J. Wiatrowski, "Documenting Benefits Coverage for all Workers," originally posted May 26, 2004, revision posted December 21, 2005; U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/opub/cwc/print/cm20040518ar01p1.htm> (last accessed Jan. 24, 2006).

<sup>22</sup>See GAO, *Private Pensions: Issues of Coverage and Increasing Contribution Limits for Defined Contribution Plans*, GAO-01-846 (Washington, D.C.: Sept. 17, 2001).

**Table 5: Participation in Employer-Provided Defined Benefit and Defined Contribution Retirement Plans for All Workers and Full-time Workers, 1990 to 2003**

Year	Workers participating in a retirement plan regardless of type of plan		Defined benefit		Defined contribution	
	All workers	Full-time workers	All workers	Full-time workers	All workers	Full-time workers
1990-1991	53%	60%	35%	39%	34%	39%
1991-1992	54%	61%	34%	39%	35%	40%
1992-1993	53%	<sup>a</sup>	32%	<sup>a</sup>	35%	<sup>a</sup>
1993-1994	50%	58%	28%	33%	34%	40%
1994-1995	51%	60%	28%	33%	37%	44%
1995-1996	<sup>a</sup>	61%	<sup>a</sup>	32%	<sup>a</sup>	46%
1996-1997	53%	62%	27%	32%	40%	47%
1998	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>
1999	48%	56%	21%	25%	36%	42%
2000	48%	55%	19%	22%	36%	42%
2001	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>
2002	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>	<sup>a</sup>
2003	49%	58%	20%	24%	40%	48%

Source: GAO presentation of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

<sup>a</sup>Data were not collected or not tabulated in a given year. The entire private sector economy was not surveyed at the same time until 1999, which results in data that span multiple and overlapping periods prior to then.

Note: Percentages do not add up to 100 because workers might be enrolled in both defined benefit and defined contribution plans.

**Paid Leave Was Generally Available to All Workers, but Certain Types of Leave Were Less Available to Part-Time Workers**

The percentage of employees offered paid leave was relatively stable between 1990 and 2003. Across the period, three-quarters or more of all workers were eligible for paid holidays and vacations. Full-time workers were more likely than part-time workers to be offered employer-sponsored paid leave (see table 6).<sup>23</sup>

<sup>23</sup>For this analysis, we relied on previous analysis issued by BLS that did not include trends across time by industry, for union or nonunion workers, or part-time workers. See William J. Wiatrowski, "Documenting Benefits Coverage for all Workers," originally posted May 26, 2004, revision posted December 21, 2005; U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/opub/cwc/print/cm20040518ar01p1.htm> (last accessed Jan. 24, 2006).

**Table 6: Percent of Workers Offered Employer-Provided Paid Leave, 1990 to 2003**

Year		Holidays	Vacations	Personal leave	Funeral leave	Jury duty leave	Military leave	Sick leave
1990-1991	All workers	79%	83%	14%	56%	62%	32%	50%
	Full-time workers	88%	92%	16%	63%	70%	37%	57%
1991-1992	All workers	77%	82%	14%	57%	63%	31%	52%
	Full-time workers	87%	92%	16%	65%	71%	37%	60%
1992-1993	All workers	77%	82%	15%	57%	64%	30%	50%
	Full-time workers	a a	a	a	a	a	a	a
1993-1994	All workers	75%	80%	14%	56%	63%	27%	47%
	Full-time workers	86%	92%	16%	65%	72%	33%	57%
1994-1995	All workers	74%	80%	15%	55%	62%	25%	44%
	Full-time workers	85%	92%	17%	65%	71%	30%	52%
1995-1996	All workers	a a	a	a	a	a	a	a
	Full-time workers	84%	91%	18%	64%	71%	30%	54%
1996-1997	All workers	73%	79%	15%	56%	63%	27%	44%
	Full-time workers	85%	91%	17%	66%	73%	32%	53%
1998	All workers	a	a	a	a	a	a	a
	Full-time workers	a	a	a	a	a	a	a
1999	All workers	75%	79%	a	a	a	a	53%
	Full-time workers	87%	90%	a	a	a	a	63%
2000	All workers	77%	80%	a	a	a	a	a
	Full-time workers	87%	91%	a	a	a	a	a
2001	All workers	a	a	a	a	a	a	a
	Full-time workers	a	a	a	a	a	a	a
2002	All workers	a	a	a	a	a	a	a
	Full-time workers	a	a	a	a	a	a	a
2003	All workers	79%	79%	a	a	70%	50%	a
	Full-time workers	91%	91%	a	a	77%	56%	a

Source: GAO presentation of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

<sup>a</sup>Data were not collected or not tabulated in a given year. The entire private sector economy was not surveyed at the same time until 1999, which results in data that span multiple and overlapping periods prior to then.

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## Experts Agreed That Rising Benefit Costs Are Forcing Private Employers and Their Employees to Make Trade-Offs between Wages and Benefits

Experts who reviewed our data found it reflected their experience and asserted that rising benefit costs have been leading employers and employees to make increasingly difficult trade-offs between wages and benefits. Maintaining health care and pensions is the main priority for workers, according to union representatives who said that workers are trading wage increases in order to maintain benefits. A panelist noted that workers consistently choose to preserve health care benefits over increases in cash compensation. On the other hand, it was noted by a small business leader that in his experience some employees, particularly younger people, prefer to increase wages rather than preserve benefits. A panelist explained that it is the rise in the actual dollar costs of benefits that is driving both employer's and employee's decisions.

Additionally, our compensation data for the past decade provoked a number of observations from the panelists regarding the likelihood of shifting risk to the individual employee. Experts discussed the continuing shift in employer-sponsored retirement income from defined benefit to defined contribution plans. One expert predicted the eventual termination of defined benefit plans, a freeze or decrease in hybrid plans (those that combine features of defined benefit and defined contribution plans), and a shift towards 401(k) savings plans (which are a type of defined contribution plan).<sup>24</sup> Panelists also observed that with regard to health benefits, employers are experimenting with consumer-directed health care plans, which may also shift more responsibility and risk to the individual employee.<sup>25</sup> In addition, employers are considering changing the way they offer compensation. Experts agreed that there has been a movement from fixed to incentive compensation, wherein employers tie cash compensation to productivity. It was noted that some employers are turning to stock options in lieu of wage increases. Given the risks implied for the individual in such private sector plans, for both retirement and

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<sup>24</sup>GAO has found similar trends. See GAO, *Private Pensions: Issues of Coverage and Increasing Contribution Limits for Defined Contribution Plans*, [GAO-01-846](#) (Washington, D.C.: Sept. 17, 2001); GAO, *Private Pensions: Improving Worker Coverage and Benefits*, [GAO-02-225](#) (Washington, D.C.: Apr. 9, 2002); and GAO, *Pension Benefit Guaranty Corporation: Single-Employer Pension Insurance Program Faces Significant Long-Term Risks*, [GAO-04-90](#) (Washington, D.C.: Oct. 29, 2003).

<sup>25</sup>Consumer-directed health plans are a relatively new health care plan design. While many variants exist, such plans generally include three basic precepts: an insurance plan with a high deductible, a savings account to pay for services under the deductible, and decision support tools. See GAO, *Federal Employees Health Benefits Program: Early Experience with a Consumer-Directed Health Plan*, [GAO-06-143](#) (Washington, D.C.: Nov. 21, 2005).

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health care, a panelist emphasized that employees will need adequate education to make informed decisions.<sup>26</sup>

Panelists also made observations about the rise in compensation costs and their current and future implications for business and for employees. One benefits expert stated that if an employer is locked into paying compensation costs that the productivity of their workers cannot support, jobs will go elsewhere. A union representative noted that the garment industry has faced international competitors with lower compensation costs, which has led to lowered compensation for U.S. workers and a loss of domestic jobs. It was noted that employers may attempt to remain competitive by cutting wages and benefits for workers, offshoring jobs, and increasing the use of contingent workers, who may not be provided benefits. It was also noted that businesses have concerns about their ability to sustain long-term liabilities associated with certain benefit packages.

Experts disagreed on whether or how much of the responsibility for addressing the rise in benefit costs should rest with the public sector. In the view of a union spokesperson, such benefits amount to a social good, something that supports the well-being and overall productivity of society. A union representative noted that employees who have dropped out of health insurance plans, especially employees in lower wage industries, have subsequently relied on public programs in which taxpayers ultimately bear the cost. Other panelists expressed belief in the marketplace as an arbiter of resources and said that government or public benefit models are not a solution to employers' rising costs for compensation. These panelists suggested competition would eventually resolve the distribution of benefits by winnowing out companies that could not attract the kind of employees needed with the type of compensation they provide. One panelist emphasized that government, therefore, should have limited involvement in the provision of employer-sponsored benefits. A human resources representative suggested that businesses should be allowed to experiment with different means of providing benefits. On the other hand, it was also suggested that future solutions to benefit costs would require both public and private initiative and collaboration. A union representative

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<sup>26</sup>See also GAO, *Private Pensions: Participants Need Information on Risks They Face in Managing Pension Assets at and during Retirement*. GAO-03-810 (Washington, D.C.: July 29, 2003).

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noted that partnerships among employers, workers, and government could begin to address the problem of rising benefit costs.

Aside from such different viewpoints, most panelists noted that the employer-sponsored system of benefits in its current form may not be sustainable, largely because productivity growth is unlikely to support rising benefit costs.<sup>27</sup> Given the potential for this unsustainability, they noted that employers and employees will be forced to continue making trade-offs between wages and benefits.

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## Concluding Observations

While public policy has focused on the rise of health care costs as it affects today's retirees, it is apparent that these expenses are also having an effect on current workers and their employers. The growth in real costs is significant, especially given the decrease in participation among those eligible. While a number of factors could influence an employee's decision not to participate in employer-sponsored benefits, cost is certainly one of them.

In the United States, retirement income rests on a proverbial "three-legged stool." This is income derived from Social Security, employer-sponsored pension plans, and personal savings—all requiring investment over the working life of the employee. For pensions, the ongoing shift to defined contribution plans will require that Americans become far more educated and resourceful to successfully manage the associated risk. With regard to defined benefit plans, it will be imperative that they are not underfunded so that current and future retirees are not put at risk or that taxpayers are not asked to pay when companies default on their obligations.

Rising health care and retirement costs affect both employers and employees. Employers may turn to using more contingent workers to whom they may not need to pay benefits and to a workforce overseas. From the employees' perspectives, as the cost of benefits rises, they will be confronted with continued trade-offs in their compensation packages.

For the nation itself, health care and retirement are part of a large and growing fiscal challenge. As policy makers deliberate over public policy

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<sup>27</sup>Over the last two decades, the average level of productivity—which affects the level of compensation employers may choose to offer—has increased. Between 1980 and 1995, the average annual growth in labor productivity per hour was 1.6 percent. Between 1996 and 1999, this average annual growth increased to 2.7 percent. Between 2000 and 2004, the average annual growth was 3.3 percent.

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support for retirees, they will want to be cognizant of the related challenge posed by the trends in the cost and availability of employer-sponsored compensation.

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## Agency Comments

We requested comments on a draft of this report from the departments of Labor and Health and Human Services. We received technical comments from the Bureau of Labor Statistics and the Employee Benefits Security Administration at the Department of Labor and from the Agency for Healthcare Research and Quality at the Department of Health and Human Services. We also provided experts with the section of the draft that characterized the exchange at the expert panel. We incorporated comments where appropriate.

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We are sending copies of this report to the Secretaries of Health and Human Services and Labor, relevant congressional committees, and other interested parties. Copies will be made available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>. Please contact me at (202) 512-7003 if you or your staff have any questions about this report. Other major contributors to this report are listed in appendix IV.



Sigurd R. Nilsen  
Director, Education, Workforce,  
and Income Security Issues

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# Appendix I: Scope and Methodology

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To determine recent trends in employers' total compensation costs and the factors contributing to the trends, we obtained data from the Department of Labor's Bureau of Labor Statistics (BLS). We used the BLS' Employer Costs for Employee Compensation (ECEC), which is derived from data collected in the BLS' National Compensation Survey (NCS).<sup>1</sup> Although employers spend funds on benefits and may change the benefit package based on cost increases to control spending, BLS characterizes its survey data as "costs" to employers. As such, we report on costs to employers. NCS data are collected from a sample of establishments and include information about the hourly costs of the components of total compensation for a number of establishments and employee characteristics. Samples are selected using a methodology called probability proportional to employment size, which means that establishments with larger employment have a greater chance of selection. Weights are then applied to establish the estimates. Survey coverage includes private sector establishments with one or more workers and state and local governments with one or more workers. Agricultural, private households, and the federal government are not included in the survey. Our analysis focuses on private sector employers' hourly costs for total compensation, wages and salaries, and total benefits. Within total benefits, we focus on the three most costly discretionary benefits—paid leave, health insurance, and retirement benefits. Costs are calculated for active workers and do not include costs for retiree benefits. We analyzed data for the period 1991 to 2005.<sup>2</sup> All data are from the first quarter of each year. Those data that were not available from BLS's on-line resources were obtained directly from BLS.

In the ECEC, costs are measured as the average employer costs per employee hour worked for wages and salaries and total benefits. To control for the effect of inflation, we adjusted all dollars to 2004 terms by using the BLS's Consumer Price Index Research Series (CPI-U-RS) for 2004. The CPI-U-RS presents an estimate of the CPI for all urban consumers from 1978 to 2004 that incorporates most of the improvements in the CPI calculations made by BLS over that time period.

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<sup>1</sup>The NCS data is also used to produce the Employment Cost Index (ECI), which measures the change in employer costs for wages and benefits. Both the ECI and the ECEC are published quarterly. The NCS survey also provides data on benefit plans, which was previously collected in the Employee Benefits Survey. See <http://www.bls.gov/ncs/home.htm> for more detailed information about the NCS.

<sup>2</sup>While BLS has been collecting data on employee benefits since the 1950s, these years represent the most comprehensive data available.

We used a z-test to test whether the costs in 2005 were statistically significantly different from the costs in 1991. BLS provided us with the relative standard errors (RSE) for the years 2000 to 2003, which BLS officials contend provide reasonable estimates of what the RSEs are for the earlier data. To ensure the greatest level of confidence, we used the highest RSE between 2000 and 2003 to ensure a conservative measure of statistical significance.

Our analysis included the following data elements:

- **Total compensation** consists of the sum of costs for wages and salaries and total benefits.
- **Wages and salaries** are defined as the hourly straight-time wage rate, or for workers not on an hourly basis, straight-time earnings divided by the corresponding hours. Straight-time wages and salary rates are total earnings before payroll deductions and include production bonuses, incentive earnings, commission payments, and cost-of-living adjustments.
- **Total benefits** include legally required benefits (Social Security, Medicare, federal and state unemployment, and workers' compensation). Voluntary benefits reflected in the total benefits calculation are paid leave; supplemental pay (overtime and premium pay, shift differentials, and nonproduction bonuses); insurance benefits (life, health, short-term disability, and long-term disability); retirement and savings benefits; and other benefits (severance pay and supplemental unemployment plans).
  - **Paid Leave** includes vacation, holidays, sick leave, and other leave such as personal leave, military leave, and funeral leave.
  - **Retirement and Savings** includes savings and thrift plans, defined benefit, and defined contribution plans. Due to a change in the way BLS classifies retirement plans, we report on the broader category of "retirement and savings" in this report. Beginning in 1996, pension and savings plans within existing sampling units were examined to determine which were defined benefits or defined contributions and were reclassified as such. Although the old divisions cannot be compared with the new divisions, the overall category of retirement and savings remains comparable.
  - **Health insurance** includes medical, stand-alone dental, and stand-alone vision.

- **Establishments** are defined as single physical locations, such as a factory or a retail store, and may be part of a larger firm. The break-outs for establishment size were provided to us from BLS as small (1 to 99 employees), medium (100 to 499 employees), and large (500 or more employees).
- **Union status** is determined separately for each occupation in an establishment. An occupation is considered union if all of the following conditions are met: a labor organization is recognized as the bargaining agent for workers in the occupation; wage and salary rates are determined through collective bargaining or negotiations; and settlement terms, which must include wage provisions and may include benefit provisions, are embodied in a signed mutually binding collective bargaining agreement. Not all employees need to belong to the union for the occupation to be classified as such.
- **Full-time and part-time status** is defined by the establishment reporting the data.
- **Industry sectors and industries** are based on the Standard Industrial Classification System (SIC). The industries within each sector are in table 7. The industry definitions in the NCS changed in 2004, making data prior to 2004 not comparable to the newer data. Therefore, we only present industry data for the period 1991 to 2003.

**Table 7: Private Industry Sectors and the Industries within those Sectors**

Sector and industries	Examples
<b>Goods-producing</b>	
Construction	General contractors, plumbing, electrical work, carpentry
Manufacturing	Durable and nondurable goods
Mining	Metal mining, coal mining, gas extraction
<b>Service-providing</b>	
Transportation and Public Utilities	Transportation; public utilities, communications; and electric, gas, and sanitary services
Wholesale trade	Durable and nondurable products
Retail trade	Food stores, car dealers, eating and drinking places
Finance, insurance, and real estate	Banking and other credit agencies, and insurance agents and brokers, real estate agents
Services	Business services, health services, hotels, personal services

Source: Bureau of Labor Statistics, U.S. Department of Labor.

We assessed the reliability of the ECEC data by reviewing BLS documentation, interviewing BLS staff, and performing electronic tests to check for outliers or other potential data problems. Based upon these checks, we determined that the data were sufficiently reliable for the purposes of our work.

To determine whether employees' costs, participation, or access to benefits have changed, we relied on data from two sources: (1) the BLS' National Compensation Survey (NCS) and (2) the Medical Expenditure Panel Survey-Insurance Component (MEPS IC) administered by the Agency for Healthcare Research and Quality (AHRQ) at the Department of Health and Human Services.

The BLS uses the NCS to measure the incidence and provisions of selected employer provided benefit plans.<sup>3</sup> We focused on employee coverage by retirement and savings plans, including defined contribution and defined benefit plans, and the provision of paid leave benefits.<sup>4</sup> Coverage is not necessarily the same as participation. For example, NCS produces data on the availability of sick leave, but not on employees' use of such benefit.<sup>5</sup> In addition, benefits data were not published every year. Data were available between 1991 and 2003. Despite these issues, we felt the data were reliable and useful in understanding whether and how employers' provision of retirement and paid leave has changed over time. We collected these data from various BLS publications. We assessed the reliability of the data by reviewing BLS documentation and interviewing BLS staff. Based upon these checks, we determined that the data were sufficiently reliable for the purposes of our work.

We used the MEPS IC to provide a detailed analysis of employee access and participation in employer provided health insurance. The MEPS IC is an annual survey of establishments that collects information about employer-sponsored health insurance offerings in the United States. MEPS IC data are tabulated by the AHRQ and tables are available for the period 1996 through 2003.<sup>6</sup> MEPS tables include standard errors, which we used

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<sup>3</sup>This was formerly called the Employee Benefits Survey (EBS).

<sup>4</sup>We used the MEPS IC data for information on access and participation in employer-provided health insurance plans.

<sup>5</sup>This lack of detail is the reason we used MEPS data.

<sup>6</sup>See <http://www.meps.ahrq.gov/> for more detailed information on MEPS.

to determine statistical significance in percentage changes over time. We received electronic copies of the MEPS IC tables directly from the AHRQ.

The MEPS IC is derived from a random sample of private-sector business establishments with at least one employee and a sample of state and local government employers. We focused our analysis on the private-sector only. The sample contains businesses that existed at the beginning of the sample year and is supplemented with business births through the third quarter of that year. The MEPS IC tables are reported both nationally and for individual states. For our purposes, we focused on the national data only.

We analyzed MEPS IC data to determine the trends in the percentage of employees at establishments that offer health insurance, the percentage of employees eligible for health insurance at these firms, the percentage of eligible employees who enroll in the health insurance plans, and the average annual premium for employer-provided health insurance for single workers and the employees' share of these premiums. To control for the effect of inflation, all premium costs are reported in 2004 terms by using the BLS's Consumer Price Index for Medical Care. Inflation for medical care has been great, and using an all items CPI (such as the CPI-U-RS) would overstate the growth in premium costs.

Our analysis included the following data elements.

- **Offer health insurance**—whether an establishment makes available or contributes to the cost of any health insurance plan for current employees.
- **Health insurance plan**—an insurance contract that provides hospital and/or physician coverage to an employee or retiree for an agreed-upon fee for a defined benefit period, usually a year.
- **Single coverage**—health insurance that covers the employee only. Also known as employee-only coverage.
- **Employee**—a person on the actual payroll. Excludes temporary and contract workers, but includes the owner or manager if that person works at the firm.
- **Firm**—a business entity consisting of one or more business establishments under common ownership or control. Also known as an enterprise. A firm represents the entire organization, including the company headquarters and all divisions, subsidiaries and branches. A firm

may consist of a single-location establishment or multiple establishments. In the case of a single-location firm, the firm and establishment are identical.

- **Firm size**—the total number of employees for the entire firm as reported on the sample frame. The data were made available in the following break-outs: 1 to 9 employees, 10 to 24 employees, 25 to 99 employees, 100 to 999 employees, and 1000 or more employees.
- **Union status**—employers are asked to identify if they have union or non union employees.
- **Full-time and part-time employee**—full-time is defined by the respondent and generally includes employees that work 35 to 40 hours per week. Part-time status is considered an employee not defined as full-time by the respondent.
- **Industry categories**—the primary business activity as reported by the respondent. The industry categories that we report are based on the Standard Industrial Classification (SIC) codes.<sup>7</sup> These definitions match those used in the ECEC (see table 7). The data were not readily available by industry sector (goods-producing and service-providing).

We assessed the reliability of the MEPS IC data by reviewing AHRQ documentation, interviewing AHRQ staff, and performing electronic tests to check for outliers or other potential data problems. Based upon these checks, we determined that the data were sufficiently reliable for the purposes of our work.

To determine the possible implications of changes for private systems, we convened a panel of 17 experts representing the human resources field, industries, unions, and academia. Prior to the panel, we provided the experts with a list of discussion questions and the completed data analysis. During the half-day discussion, panelists provided their unique perspectives on the trends we identified and offered comments on the implications of these trends. We identified the panelists through consultation with internal and external parties who work on the issues

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<sup>7</sup>Beginning in 2000, the MEPS used the North American Industry Classification System (NAICS), which is not directly comparable to the SIC codes. AHRQ re-estimated their analysis using the older SIC definitions for us to facilitate comparisons of the industry data over time.

covered in this report. We selected individuals who represent a wide variety of entities that address the issue of workers' benefits and provide a balance of perspectives to help us understand the breadth of opinions on the topic. The panel included the following list of experts.

**John Burton**, Professor Emeritus, School of Management and Labor Relations, Rutgers University

**Kate Sullivan Hare**, Executive Director, Health Care Policy, U.S. Chamber of Commerce

**Michael Hirsch**, Executive Vice President, Amalgamated Life, America's Labor Insurance Company

**Tim Kane**, Bradley Fellow in Labor Policy, Center for Data Analysis, The Heritage Foundation

**Andrew Klein**, Senior Consultant, Mercer Human Resource Consulting

**Kathryn Kobe**, Director of Price, Wage, and Productivity Analysis, Economic Consulting Services

**Hank Leland**, Employee Benefits Analyst, Service Employees International Union

**Daniel Meckstroth**, Chief Economist and Council Director, Manufacturers Alliance/MAPI

**Gordon Pavy**, Collective Bargaining Coordinator, AFL-CIO

**Bruce Phillips**, Senior Fellow in Regulatory Studies, National Federation of Independent Business Research Foundation

**Dallas Salisbury**, President and CEO, Employee Benefit Research Institute

**Tom Saquella**, President, Maryland Retailers Association

**Sylvester Schieber**, Vice President-U.S. Director of Benefits Consulting, Watson Wyatt Worldwide

**Norma Sharara**, Partner, Luse Gorman Pomerenk & Schick, P.C.

**Stephen Sleigh**, Director of Strategic Resources, International Association of Machinists and Aerospace Workers

**Wayne Wendling**, Senior Director of Research, International Foundation of Employee Benefit Plans

**Steve Williams**, Director of Research, Society for Human Resource Management

# Appendix II: Employers' Real Hourly Costs for Employee Total Compensation, Wages, and Total Benefits

**Table 8: Employers' Real Hourly Costs for Employee Total Compensation, Wages, and Total Benefits for All Workers, 1991 to 2005**

Year	Total compensation	Wages and salaries	Total benefits <sup>a</sup>
1991	\$20.83	\$15.07	\$5.77
1992	\$21.26	\$15.26	\$6.00
1993	\$21.42	\$15.27	\$6.15
1994	\$21.52	\$15.30	\$6.22
1995	\$20.98	\$15.03	\$5.95
1996	\$20.95	\$15.08	\$5.87
1997	\$21.14	\$15.34	\$5.80
1998	\$21.41	\$15.60	\$5.81
1999	\$21.54	\$15.72	\$5.82
2000	\$21.77	\$15.89	\$5.88
2001	\$22.20	\$16.20	\$6.01
2002	\$22.80	\$16.60	\$6.20
2003	\$22.97	\$16.58	\$6.39
2004	\$23.29	\$16.64	\$6.65
2005	\$23.39	\$16.60	\$6.79
Percentage change 1991-2005	<b>12</b>	<b>10</b>	<b>18</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

<sup>a</sup>The calculation of benefits includes total benefits tracked by BLS. These benefits include those to which employers are legally required to make contributions (Social Security, Medicare, federal and state unemployment, and workers compensation), and voluntary benefits (paid leave, supplemental pay, insurance plans—life and health, retirement and savings, and other benefits).

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Table 9: Employers' Real Hourly Costs of Employee Total Compensation for All Workers by Establishment Size, 1991 to 2005**

<b>Year</b>	<b>Small (1-99 workers)</b>	<b>Medium (100-499 workers)</b>	<b>Large (500+ workers)</b>
1991	\$18.09	\$19.33	\$27.65
1992	\$18.34	\$19.70	\$28.00
1993	\$18.66	\$19.54	\$28.20
1994	\$18.38	\$19.98	\$29.41
1995	\$17.85	\$20.07	\$28.20
1996	\$17.86	\$19.94	\$28.91
1997	\$18.07	\$19.90	\$29.32
1998	\$18.42	\$20.27	\$29.58
1999	\$18.44	\$20.56	\$29.89
2000	\$18.82	\$21.17	\$29.54
2001	\$19.06	\$22.38	\$30.06
2002	\$19.44	\$23.10	\$31.29
2003	\$19.44	\$23.23	\$31.77
2004	\$19.47	\$23.91	\$32.54
2005	\$19.57	\$23.65	\$33.48
Percentage change 1991-2005	<b>8</b>	<b>22</b>	<b>21</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Table 10: Employers' Real Hourly Costs of Employee Total Compensation for All  
Workers by Full- and Part-time Status, 1991 to 2005**

<b>Year</b>	<b>Full-time workers</b>	<b>Part-time workers</b>
1991	\$22.92	\$11.30
1992	\$23.49	\$11.62
1993	\$23.78	\$11.55
1994	\$24.30	\$11.08
1995	\$23.84	\$11.07
1996	\$23.97	\$11.02
1997	\$23.97	\$11.27
1998	\$24.25	\$11.58
1999	\$24.43	\$11.57
2000	\$24.81	\$11.79
2001	\$25.13	\$12.43
2002	\$25.80	\$12.75
2003	\$26.05	\$12.74
2004	\$26.50	\$12.63
2005	\$26.69	\$12.75
Percentage change 1991- 2005	<b>16</b>	<b>13</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

The growth rates for certain groups of employers may be higher than the aggregated average growth rate due to changes in employment composition and compensation cost levels overtime.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Table 11: Employers' Real Hourly Costs of Employee Total Compensation for All Workers by Union Status, 1991 to 2005**

<b>Year</b>	<b>Union</b>	<b>Nonunion</b>
1991	\$26.65	\$19.72
1992	\$27.76	\$20.06
1993	\$28.13	\$20.21
1994	\$29.32	\$20.21
1995	\$27.64	\$19.94
1996	\$27.98	\$19.90
1997	\$27.89	\$20.20
1998	\$27.31	\$20.60
1999	\$28.05	\$20.63
2000	\$28.39	\$20.92
2001	\$29.67	\$21.33
2002	\$30.91	\$21.84
2003	\$31.50	\$21.93
2004	\$31.94	\$22.28
2005	\$32.10	\$22.35
Percentage change 1991-2005	<b>21</b>	<b>13</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

The growth rates for certain groups of employers may be higher than the aggregated average growth rate due to changes in employment composition and compensation cost levels overtime.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Table 12: Employers' Real Hourly Costs of Employee Total Compensation for All  
Workers by Industry Sector, 1991 to 2003**

<b>Year</b>	<b>Service providers</b>	<b>Goods producers</b>
1991	\$19.34	\$25.02
1992	\$19.73	\$25.59
1993	\$19.89	\$25.96
1994	\$19.93	\$26.30
1995	\$19.49	\$25.45
1996	\$19.50	\$25.49
1997	\$19.70	\$25.65
1998	\$20.03	\$25.77
1999	\$20.19	\$25.92
2000	\$20.53	\$25.84
2001	\$21.06	\$26.04
2002	\$21.70	\$26.72
2003	\$21.87	\$26.96
Percentage change 1991 - 2003	<b>13</b>	<b>8</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

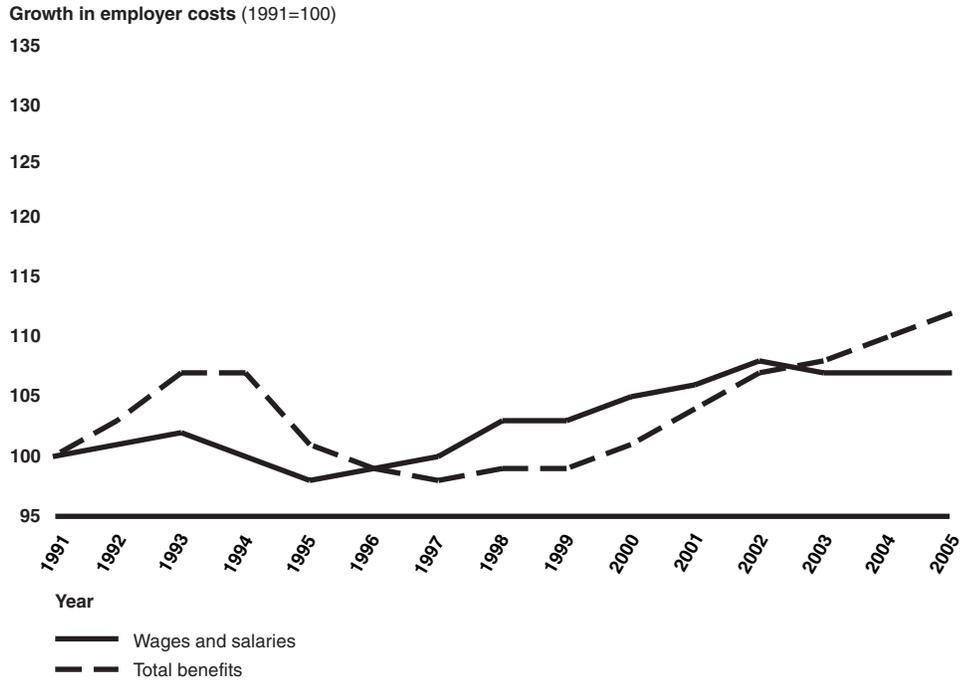
Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

BLS began using new codes to classify industries with the 2004 data. Therefore, 2004 and 2005 data were not comparable to 1991-2003 by industry.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Wages and Total Benefits**

**Figure 5: Growth in Real Employer Costs of Employee Wages and Total Benefits for all Workers by Small Establishment Size, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

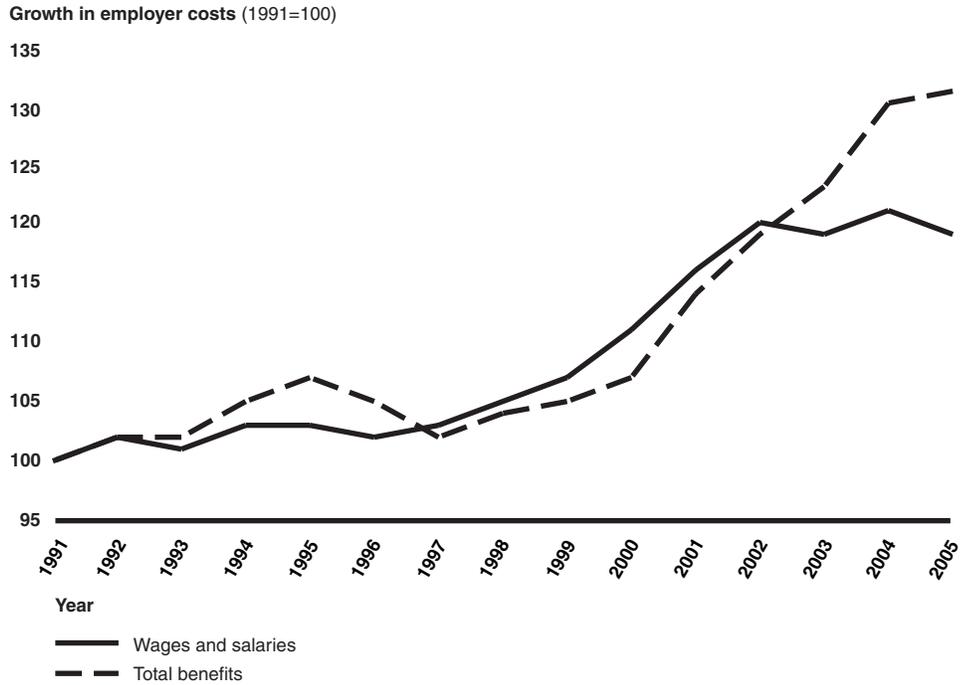
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

The growth in wages and salaries for small establishments is not statistically significant at the 95 percent confidence level while the growth in total benefits was.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 6: Growth in Real Employer Costs of Employee Wages and Total Benefits for all Workers by Medium Establishment Size, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

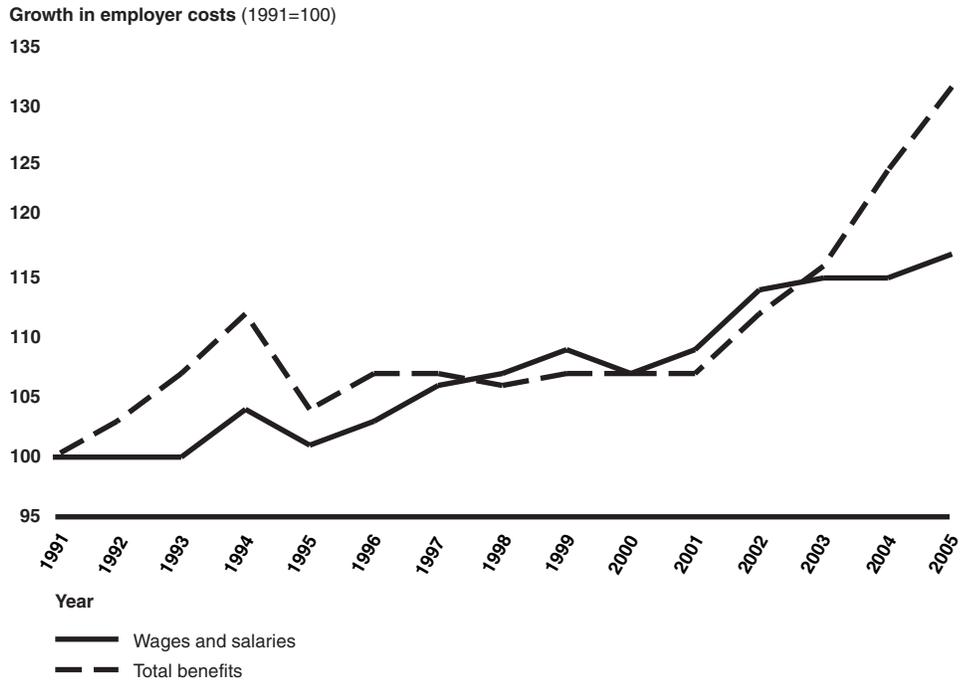
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for medium establishments are statistically significant at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 7: Growth in Real Employer Costs of Employee Wages and Total Benefits for all Workers by Large Establishment Size, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

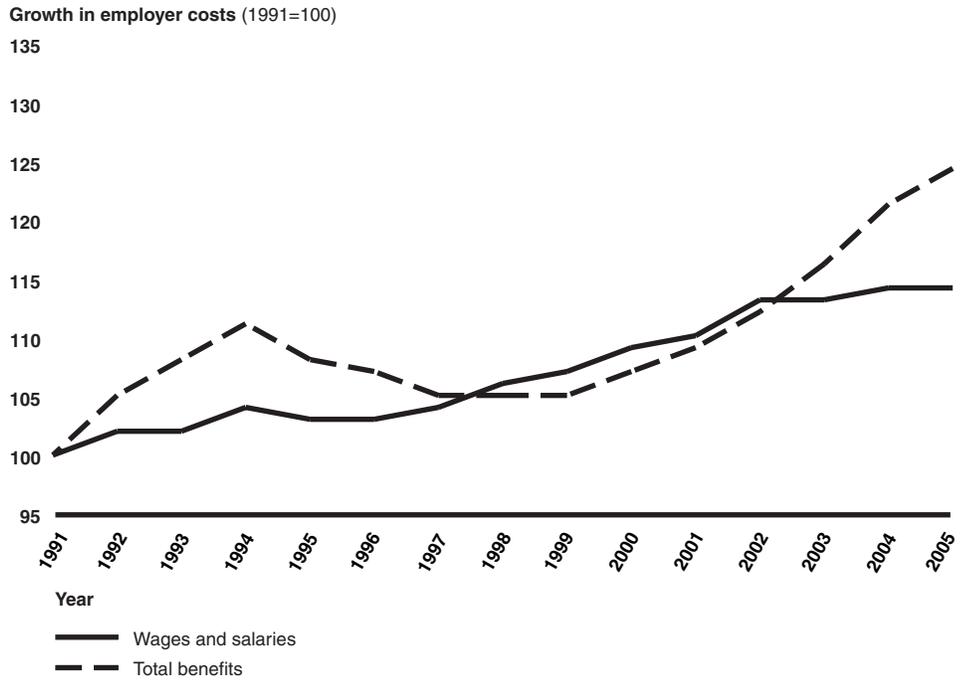
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for large establishments are statistically significant at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 8: Growth in Real Employer Costs of Employee Wages and Total Benefits for Full-time Workers, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

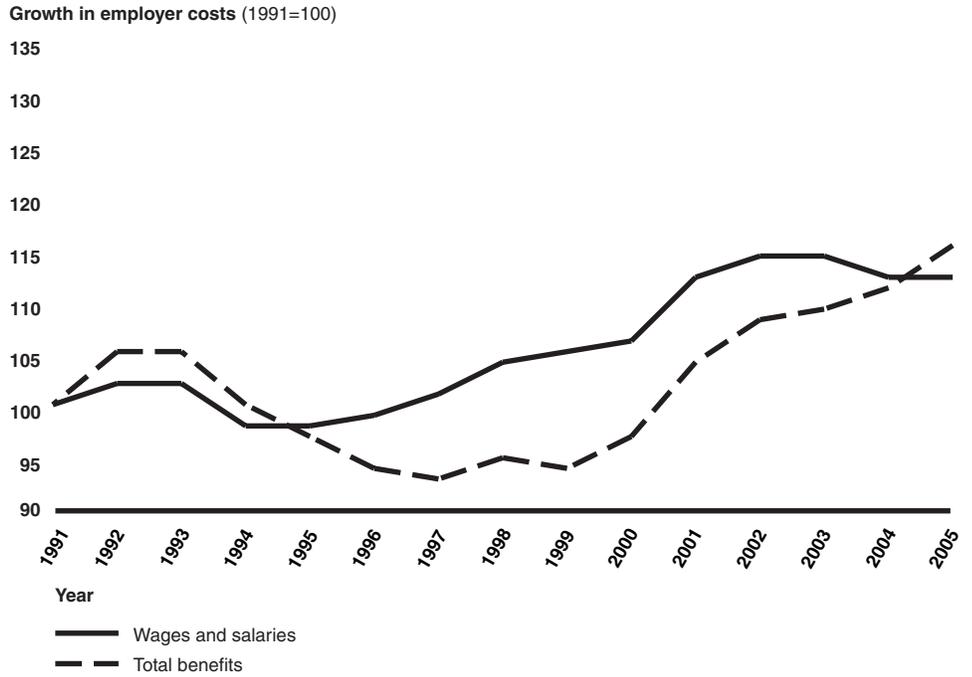
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for employers of full-time workers is statistically significant at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 9: Growth in Real Employer Costs of Employee Wages and Total Benefits for Part-time Workers, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

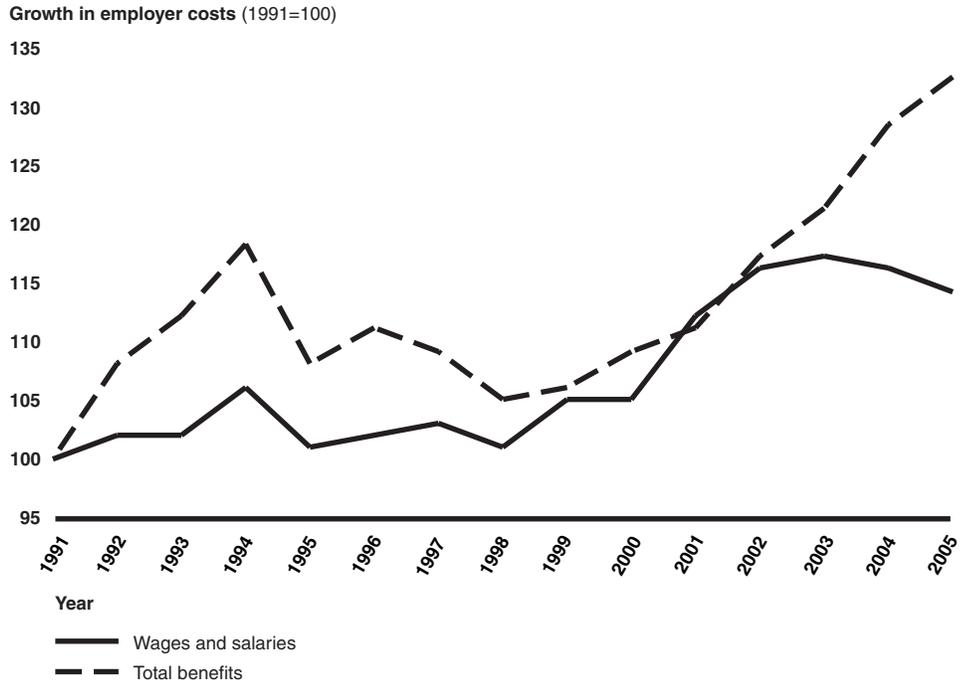
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for employers of part-time workers is statistically significant at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 10: Growth in Real Employer Costs of Employee Wages and Total Benefits  
for Union Workers, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

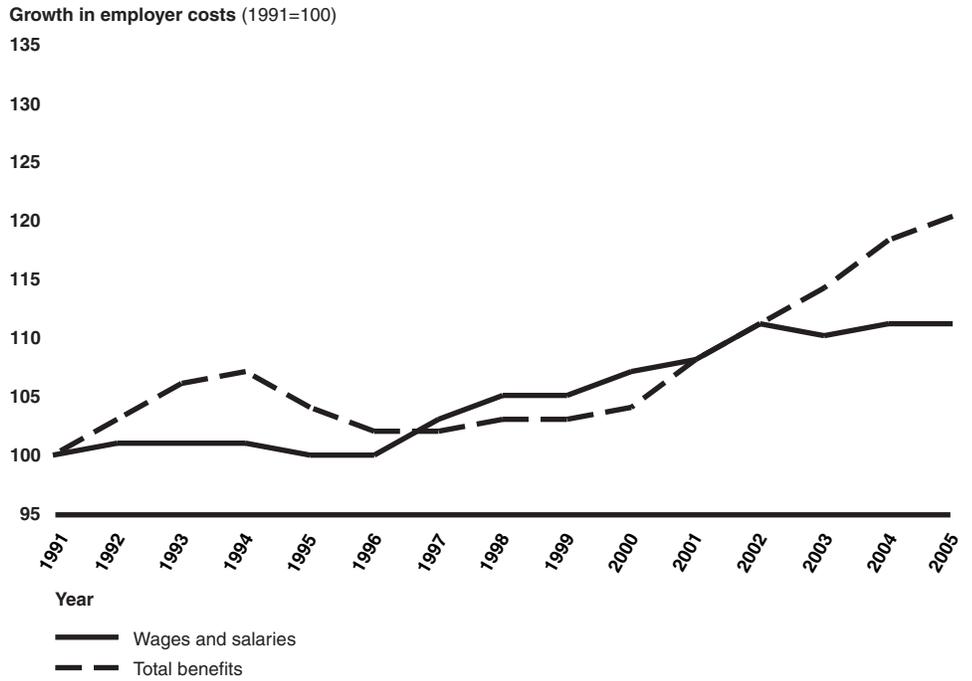
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for employers of union workers is statistically significant at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 11: Growth in Real Employer Costs of Employee Wages and Total Benefits  
for Nonunion Workers, 1991 to 2005**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

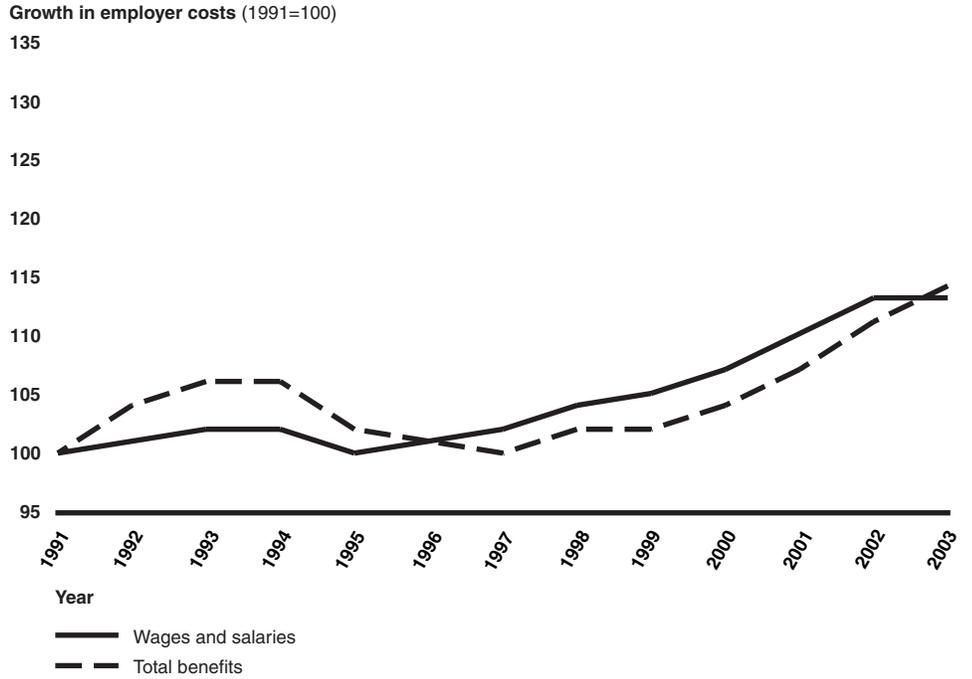
Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for employers of nonunion workers is statistically significantly different from zero at the 95 percent confidence level.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 12: Growth in Real Employer Costs of Employee Wages and Total Benefits  
for Workers in the Service Providing Sector, 1991 to 2003**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

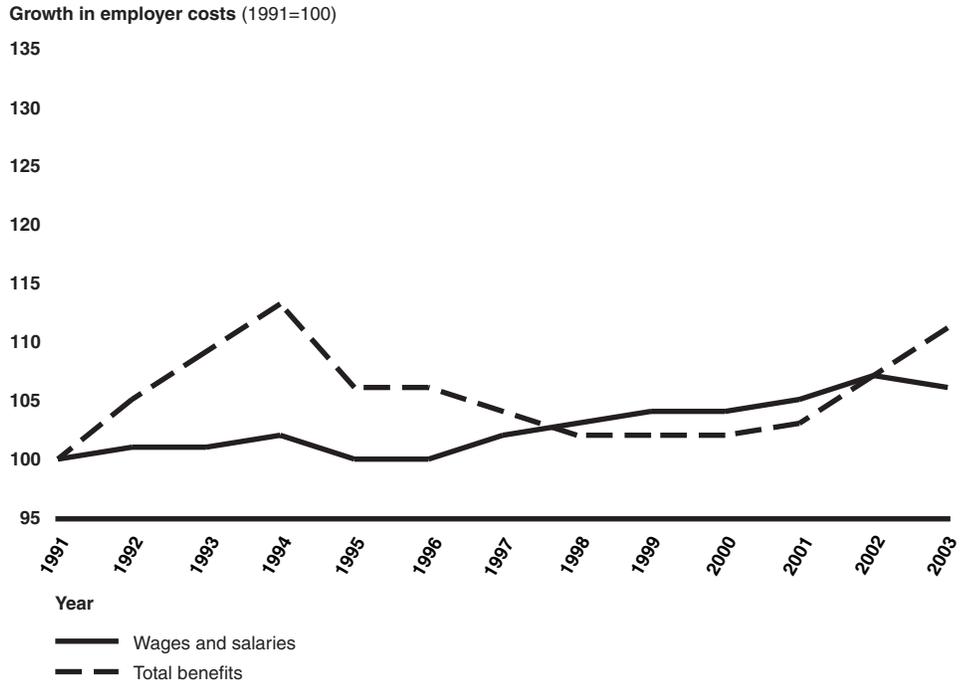
Data represent costs to private employers only.

Growth in wages and salaries and total benefits for employers in the service providing sector is statistically significant at the 95 percent confidence level.

BLS began using new codes to classify industries with the 2004 data. Therefore, 2004 and 2005 data were not comparable to 1991 to 2003 by industry.

**Appendix II: Employers' Real Hourly Costs  
for Employee Total Compensation, Wages,  
and Total Benefits**

**Figure 13: Growth in Real Employer Costs of Employee Wages and Total Benefits  
for Workers in the Goods Producing Sector, 1991 to 2003**



Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Growth in wages and salaries and total benefits for employers in the goods producing sector is statistically significant at the 95 percent confidence level.

BLS began using new codes to classify industries with the 2004 data. Therefore, 2005 and 2006 data were not comparable to 1991 to 2003 by industry.

# Appendix III: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance

**Table 13: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance for All workers, 1991 to 2005**

Year	Paid leave	Retirement income	Health insurance
1991	1.42	0.59	1.24
1992	1.44	0.61	1.35
1993	1.42	0.62	1.40
1994	1.40	0.65	1.43
1995	1.34	0.63	1.30
1996	1.33	0.66	1.24
1997	1.34	0.65	1.16
1998	1.35	0.64	1.16
1999	1.36	0.65	1.16
2000	1.40	0.65	1.19
2001	1.47	0.66	1.24
2002	1.51	0.66	1.35
2003	1.51	0.68	1.45
2004	1.50	0.80	1.53
2005	1.49	0.87	1.59
Percentage change 1991-2005	5	<b>47</b>	<b>28</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

**Appendix III: Employers' Real Hourly Costs  
for Employee Paid Leave, Retirement Income,  
and Health Insurance**

**Table 14: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Establishment Size, 1991 to 2005**

	Small (1-99)			Medium (100-499)			Large (500+)		
	Paid leave	Retirement and savings	Health insurance	Paid leave	Retirement and savings	Health insurance	Paid leave	Retirement and savings	Health insurance
1991	\$1.03	\$0.42	\$0.92	\$1.28	\$0.54	\$1.21	\$2.32	\$0.98	\$1.89
1992	\$1.01	\$0.40	\$1.00	\$1.29	\$0.53	\$1.28	\$2.35	\$1.04	\$2.04
1993	\$1.03	\$0.41	\$1.05	\$1.23	\$0.54	\$1.26	\$2.28	\$1.07	\$2.18
1994	\$0.99	\$0.42	\$1.06	\$1.24	\$0.57	\$1.30	\$2.38	\$1.21	\$2.32
1995	\$0.93	\$0.40	\$0.93	\$1.24	\$0.59	\$1.30	\$2.24	\$1.13	\$2.04
1996	\$0.93	\$0.41	\$0.89	\$1.23	\$0.60	\$1.26	\$2.33	\$1.26	\$1.98
1997	\$0.92	\$0.42	\$0.85	\$1.24	\$0.60	\$1.15	\$2.36	\$1.21	\$1.86
1998	\$0.94	\$0.41	\$0.85	\$1.25	\$0.59	\$1.17	\$2.39	\$1.21	\$1.84
1999	\$0.94	\$0.44	\$0.87	\$1.26	\$0.60	\$1.15	\$2.44	\$1.19	\$1.86
2000	\$1.01	\$0.44	\$0.90	\$1.35	\$0.61	\$1.20	\$2.39	\$1.18	\$1.89
2001	\$1.09	\$0.45	\$0.94	\$1.48	\$0.65	\$1.34	\$2.42	\$1.19	\$1.91
2002	\$1.11	\$0.44	\$1.01	\$1.54	\$0.66	\$1.47	\$2.54	\$1.24	\$2.09
2003	\$1.08	\$0.44	\$1.08	\$1.55	\$0.68	\$1.60	\$2.57	\$1.32	\$2.22
2004	\$1.04	\$0.44	\$1.13	\$1.56	\$0.79	\$1.70	\$2.62	\$1.75	\$2.37
2005	\$1.04	\$0.47	\$1.15	\$1.54	\$0.86	\$1.76	\$2.69	\$1.95	\$2.54
Percentage change 1991-2005	<b>1</b>	<b>12</b>	<b>25</b>	<b>20</b>	<b>61</b>	<b>45</b>	<b>16</b>	<b>99</b>	<b>34</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

**Appendix III: Employers' Real Hourly Costs  
for Employee Paid Leave, Retirement Income,  
and Health Insurance**

**Table 15: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Full-time and Part-time Status, 1991 to 2005**

	Full-time			Part-time		
	Paid leave	Retirement and savings	Health insurance	Paid leave	Retirement and savings	Health insurance
1991	\$1.65	\$0.70	\$1.43	\$0.37	\$0.12	\$0.37
1992	\$1.68	\$0.72	\$1.58	\$0.39	\$0.13	\$0.38
1993	\$1.66	\$0.74	\$1.65	\$0.38	\$0.14	\$0.37
1994	\$1.68	\$0.79	\$1.72	\$0.33	\$0.14	\$0.36
1995	\$1.63	\$0.77	\$1.58	\$0.31	\$0.13	\$0.33
1996	\$1.65	\$0.81	\$1.53	\$0.29	\$0.15	\$0.29
1997	\$1.63	\$0.79	\$1.41	\$0.32	\$0.15	\$0.27
1998	\$1.64	\$0.77	\$1.41	\$0.31	\$0.16	\$0.28
1999	\$1.66	\$0.79	\$1.43	\$0.32	\$0.17	\$0.25
2000	\$1.72	\$0.79	\$1.47	\$0.36	\$0.18	\$0.28
2001	\$1.79	\$0.81	\$1.51	\$0.39	\$0.16	\$0.36
2002	\$1.84	\$0.81	\$1.63	\$0.42	\$0.16	\$0.40
2003	\$1.85	\$0.84	\$1.76	\$0.39	\$0.16	\$0.42
2004	\$1.84	\$0.98	\$1.86	\$0.37	\$0.18	\$0.44
2005	\$1.85	\$1.07	\$1.92	\$0.37	\$0.18	\$0.49
Percentage change 1991-2005	<b>12</b>	<b>55</b>	<b>34</b>	-1	<b>48</b>	<b>32</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

**Appendix III: Employers' Real Hourly Costs  
for Employee Paid Leave, Retirement Income,  
and Health Insurance**

**Table 16: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Union and Nonunion Status, 1991 to 2005**

	Union			Non Union		
	Paid leave	Retirement and savings	Health insurance	Paid leave	Retirement and savings	Health insurance
1991	\$1.93	\$1.18	\$2.20	\$1.32	\$0.48	\$1.06
1992	\$2.05	\$1.30	\$2.50	\$1.33	\$0.48	\$1.14
1993	\$2.03	\$1.33	\$2.66	\$1.31	\$0.49	\$1.18
1994	\$2.09	\$1.55	\$2.88	\$1.28	\$0.50	\$1.19
1995	\$1.91	\$1.41	\$2.58	\$1.25	\$0.51	\$1.10
1996	\$1.95	\$1.59	\$2.46	\$1.24	\$0.52	\$1.05
1997	\$1.85	\$1.58	\$2.36	\$1.27	\$0.52	\$0.99
1998	\$1.82	\$1.49	\$2.28	\$1.28	\$0.52	\$1.00
1999	\$1.88	\$1.56	\$2.29	\$1.28	\$0.52	\$1.01
2000	\$1.92	\$1.63	\$2.38	\$1.33	\$0.52	\$1.04
2001	\$2.04	\$1.63	\$2.42	\$1.40	\$0.54	\$1.10
2002	\$2.19	\$1.72	\$2.69	\$1.43	\$0.54	\$1.19
2003	\$2.25	\$1.78	\$2.88	\$1.42	\$0.55	\$1.27
2004	\$2.22	\$2.15	\$3.08	\$1.41	\$0.64	\$1.35
2005	\$2.18	\$2.31	\$3.30	\$1.41	\$0.70	\$1.37
Percentage change 1991-2005	<b>13</b>	<b>97</b>	<b>50</b>	7	<b>45</b>	<b>30</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

**Appendix III: Employers' Real Hourly Costs  
for Employee Paid Leave, Retirement Income,  
and Health Insurance**

**Table 17: Employers' Real Hourly Costs for Employee Paid Leave, Retirement Income, and Health Insurance by Industry Sector, 1991 to 2003**

	Services providing sector			Goods producing sector		
	Paid leave	Retirement and savings	Health insurance	Paid leave	Retirement and savings	Health insurance
1991	\$1.31	\$0.49	\$1.07	\$1.72	\$0.89	\$1.72
1992	\$1.33	\$0.49	\$1.15	\$1.76	\$0.93	\$1.92
1993	\$1.30	\$0.50	\$1.19	\$1.77	\$0.99	\$2.04
1994	\$1.28	\$0.51	\$1.20	\$1.75	\$1.07	\$2.14
1995	\$1.22	\$0.51	\$1.11	\$1.68	\$1.00	\$1.87
1996	\$1.21	\$0.56	\$1.05	\$1.71	\$0.96	\$1.83
1997	\$1.22	\$0.54	\$0.97	\$1.70	\$1.00	\$1.75
1998	\$1.23	\$0.54	\$0.98	\$1.70	\$0.95	\$1.71
1999	\$1.25	\$0.55	\$0.99	\$1.70	\$0.95	\$1.72
2000	\$1.32	\$0.56	\$1.01	\$1.66	\$0.92	\$1.78
2001	\$1.39	\$0.59	\$1.08	\$1.71	\$0.89	\$1.79
2002	\$1.44	\$0.59	\$1.19	\$1.74	\$0.92	\$1.93
2003	\$1.44	\$0.59	\$1.29	\$1.76	\$1.01	\$2.03
Percentage change 1991-2003	10	<b>22</b>	<b>20</b>	2	14	<b>18</b>

Source: GAO analysis of Bureau of Labor Statistics (BLS) data from the National Compensation Survey (NCS).

Notes: Costs are measured as the average employer cost per employee hour worked. To control for the effect of inflation, dollars are reported in 2004 terms by using the BLS Consumer Price Index Research Series.

Data represent costs to private employers only.

Bold signifies that percentage changes between 1991 and 2005 are statistically significant at the 95 percent confidence level.

BLS began using new codes to classify industries with the 2004 data. Therefore, 2004 and 2005 data were not comparable to 1991 to 2003 by industry.

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# Appendix IV: GAO Contacts and Acknowledgments

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## GAO Contact

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