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Spending by Employers on Health Insurance: A Data Brief

Abstract
[Excerpt] To attract and maintain a skilled workforce, many businesses provide health insurance and other benefits for their employees. As the cost of health insurance rises, employers face a growing challenge paying for benefits while managing labor costs to succeed in a competitive market. All types of businesses report problems, including both small businesses and firms with thousands of employees and retirees.

Despite concerns about the cost of benefits, small and large employers together provide health coverage for most Americans, about 60% of the population in 2006.1 But as the amount that employers pay for health insurance has been increasing — both absolutely and as a share of labor costs — the percent of the population covered has been decreasing.

To describe employer contributions for health insurance, this report presents data from two employer surveys. The first, conducted by the Kaiser Family Foundation and the Health Research and Educational Trust, provides information on premiums for employer-sponsored health insurance. The second, from the Department of Labor, provides information on employer costs for employee compensation, including costs for wages and salaries, health insurance, and other benefits.

Keywords
health insurance, employer contributions, employee compensation

Comments

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CRS Report for Congress

Spending by Employers on Health Insurance: A Data Brief

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Summary

To attract and maintain a skilled workforce, many businesses provide health insurance and other benefits for their employees. As the cost of health insurance rises, employers face a growing challenge paying for benefits while managing labor costs to succeed in a competitive market. All types of businesses report problems, including both small businesses and firms with thousands of employees and retirees.

Despite concerns about the cost of benefits, small and large employers together provide health coverage for most Americans, about 60% of the population in 2006.[1] But as the amount that employers pay for health insurance has been increasing — both absolutely and as a share of labor costs — the percent of the population covered has been decreasing.

To describe employer contributions for health insurance, this report presents data from two employer surveys. The first, conducted by the Kaiser Family Foundation and the Health Research and Educational Trust, provides information on premiums for employer-sponsored health insurance. The second, from the Department of Labor, provides information on employer costs for employee compensation, including costs for wages and salaries, health insurance, and other benefits.

Premiums for Employer-Sponsored Health Insurance

Although not all employers provide work-based health coverage, those that do pay most of the premium. As shown in **Table 1**, in 2007, employers paid 84.5% of the cost for single coverage and 72.9% for family coverage. Employers paid a smaller share of health insurance premiums in 2007, compared with 2006.

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[1] U.S. Census Bureau, *Income Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Report no. P60-233, August 2007, p. 58. The actual estimate for 2006 was 59.7%, down from 60.2% in 2005, and from 64.2% in 2000 (the 20-year high).

Table 1. Employer and Worker Contributions for Employer-Sponsored Health Insurance, 2001-2007

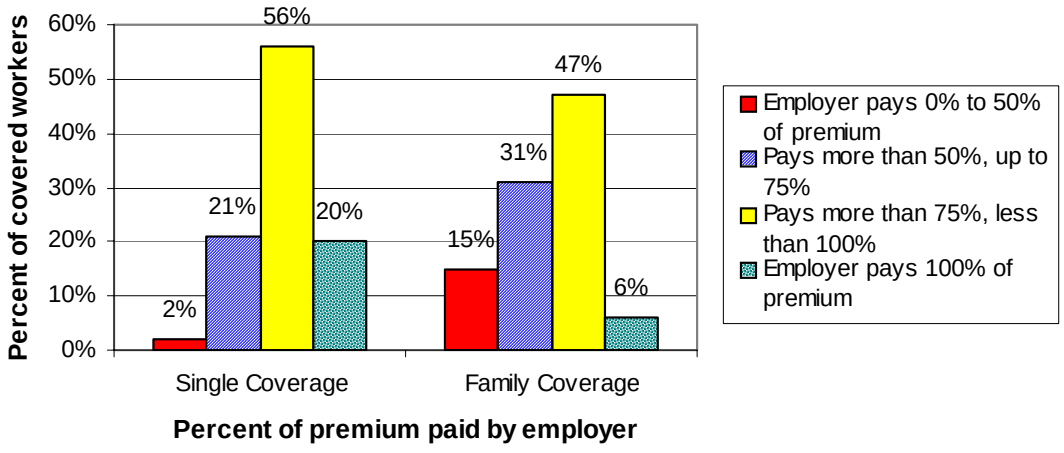
	2001	2002	2003	2004	2005	2006	2007
Employers' share of premium							
Single policy	86.4%	85.2%	85.0%	84.9%	84.8%	85.2%	84.5%
Family policy	74.5%	73.8%	73.4%	73.3%	75.1%	74.1%	72.9%
Workers' share of premium							
Single policy	13.6%	14.8%	15.0%	15.1%	15.2%	14.8%	15.5%
Family policy	25.5%	26.2%	26.6%	26.7%	24.9%	25.9%	27.1%

Source: CRS calculations based on data from the Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2007 Annual Survey, 2006 Annual Survey, 2005 Annual Survey, 2004 Annual Survey, 2003 Annual Survey, 2002 Annual Survey, and 2001 Annual Survey*.

Note: Data are based on a national sample of public and private employers with three or more workers.

The above shares are average contributions by employers, but different firms pay different shares, and even the same firm may pay different shares for different workers.[2] As shown in **Figure 1**, in 2007, employers paid 100% of the premium for health insurance for 20% of workers with single coverage and 6% of workers with family coverage. They paid 50% or less of the premium for only 2% of workers with single coverage.

Figure 1. Distribution of Percentage of Premium Paid by Employers for Single and Family Health Insurance Coverage, 2005



Source: CRS calculations based on data from the Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2007 Annual Survey*.

[2] In addition, as mentioned already, not all employers offer insurance. According to the KFF/HRET survey, in 2007, 99% of firms with 200 or more workers offered health benefits. Offer rates for smaller firms were: 45% (3-9 workers), 76% (10-24 workers), 83% (25-49 workers), and 94% (50-199 workers).

Although the average *share* that employers contribute for premiums has been relatively stable over the 2001-2007 period (**Table 1**), the average *amount* has increased substantially. As shown in **Table 2**, employer payments for single and family coverage both increased by about two-thirds between 2001 and 2007, from $2,292 to $3,785 for single coverage, and from $5,256 to $8,824 for a family of four.

Growth in health insurance premiums has varied year-to-year, always exceeding growth in prices for all goods and services, as measured by the Consumer Price Index. Over the 2001-2006 period, premiums for single coverage in an employer-sponsored health plan grew at an average annual rate of 9.8%; average growth for family coverage was 10.2%. Over the same period, average annual growth in consumer prices was 2.6%.

Table 2. Premiums for Employer-Sponsored Health Insurance, and Growth in Prices for All Goods and Services, 2001-2007

	2001	2002	2003	2004	2005	2006	2007	Avg Growth 2001-06
Average annual premium for single coverage								
Employer contribution	$2,292	$2,606	$2,875	$3,137	$3,413	$3,615	$3,785	
Worker contribution	$360	$454	$508	$558	$610	$627	$694	
Total premium	$2,652	$3,060	$3,383	$3,695	$4,024	$4,242	$4,479	
Growth in premium[a]	9.4%	15.4%	10.6%	9.2%	8.9%	5.4%	5.6%	9.8%
Average annual premium for a family of four								
Employer contribution	$5,256	$5,870	$6,656	$7,289	$8,167	$8,508	$8,824	
Worker contribution	$1,800	$2,084	$2,412	$2,661	$2,713	$2,973	$3,281	
Total premium	$7,056	$7,954	$9,068	$9,950	$10,880	$11,480	$12,106	
Growth in premium[a]	11.2%	12.7%	14.0%	9.7%	9.3%	5.5%	5.5%	10.2%
Average growth in prices for all goods and services								
CPI-U	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	NA	2.6%

Source: KFF/HRET employer health benefit surveys (see Table 1). Data on growth in prices are from the U.S. Department of Labor, Bureau of Labor Statistics, at [http://www.bls.gov].

Notes: CPI-U=Consumer Price Index-All Urban Consumers. NA=not available. Data are based on a national sample of public and private employers with three or more workers. Components may not add to totals because of rounding.

a. Growth in premium from previous year.

Health Insurance and Labor Costs

Employer contributions for health insurance are an important component of labor costs. Firms use health and other benefits to attract and retain workers, and workers value access to subsidized health coverage. As shown in **Table 3**, in March 2007, health insurance accounted for 7.9% of employee compensation; other benefits, including paid leave, pensions, and required contributions for Social Security and Medicare, accounted for 22.1%.[3] Wages and salaries made up the remaining 70% of total compensation.[4]

Table 3. Wages and Salaries, Benefits, and Health Insurance as a Percentage of Total Compensation, 2001-2007

	2001	2002	2003	2004	2005	2006	2007
Wages and salaries	72.6%	72.4%	71.8%	71.0%	70.4%	70.1%	70.0%
Total benefits	27.4%	27.6%	28.2%	29.0%	29.6%	29.9%	30.0%
Health insurance	6.1%	6.5%	6.9%	7.2%	7.5%	7.6%	7.9%
All other benefits	21.3%	21.1%	21.3%	21.8%	22.1%	22.3%	22.1%

Source: U.S. Bureau of Labor Statistics, Office of Compensation and Working Conditions, *Employer Costs for Employee Compensation (ECEC), Historical Listing, 1991-2001, 2002-2003, and 2004-2007*, at [http://www.bls.gov/ncs/ect/home.htm].

Notes: Data are for civilian workers. Percentages are based on data reported in March of each year. (Through 2001, estimates were published annually in March; since 2002, estimates have been published quarterly.) In June 2007, the share of compensation for health insurance was 7.9% (most recent data).

The 7.9% share of compensation represents average spending on health insurance for civilian workers: individual employers may devote a higher or lower share, or nothing at all. Contributions also vary by broad industry group. For example, in June 2007, spending by state and local governments on health insurance was 11.0% of total compensation, while the share for private industry was 7.1%.[5] Differences in employer

[3] In addition to the benefits listed above, the 22% share includes overtime and other supplemental pay, life and disability insurance, and required contributions for unemployment insurance and workers' compensation.

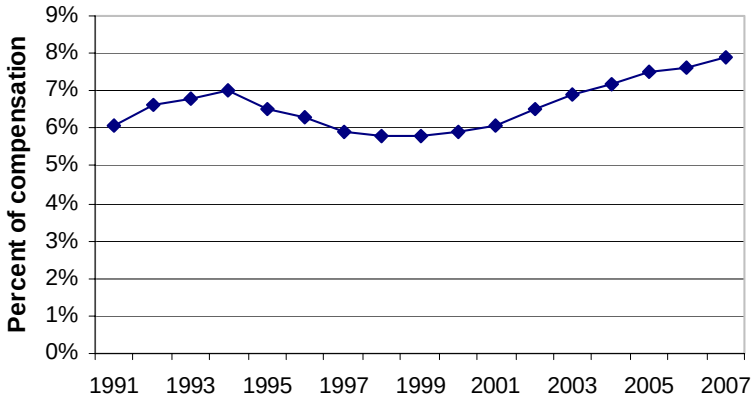
[4] Data on employer costs for employee compensation are based on a national sample of different occupations in private establishments and state and local governments. Several groups are excluded from the sample for private industry: the self-employed, farm workers, and private household workers. Federal government workers are excluded from the sample for the public sector. The data measure the average cost *per employee hour worked* that employers pay for wages and salaries and benefits. Wages and salaries are defined as the hourly straight-time wage rate or, for workers not paid on an hourly basis, straight-time earnings divided by the corresponding hours. For more information, see BLS *News*, pp. 24-26 (technical notes), released September 20, 2007, at [http://www.bls.gov/news.release/pdf/ecec.pdf].

[5] BLS *News*, September 20, 2007, p. 3.

spending may be explained by differences in health insurance coverage rates, differences in the generosity of benefits, and differences in the other components of compensation.

The 2007 share for civilian workers is high compared with the late 1990's, when employer contributions for health insurance accounted for less than 6% of compensation. As shown in **Figure 2**, over the 1999-2007 period, the share of spending for health insurance grew steadily, from 5.8% in 1999 to 7.9% in 2007. A previous upward trend occurred between 1991 and 1994, when spending grew from 6.1% of compensation to a peak of 7.0%, coinciding in time with President Clinton's health reform effort. Between 1994 and 1998, spending fell from 7.0% of compensation to 5.8%, in part because of growth in managed care plans that had some success in controlling health care costs.

Figure 2. Health Insurance as a Percentage of Total Compensation, 1991-2007



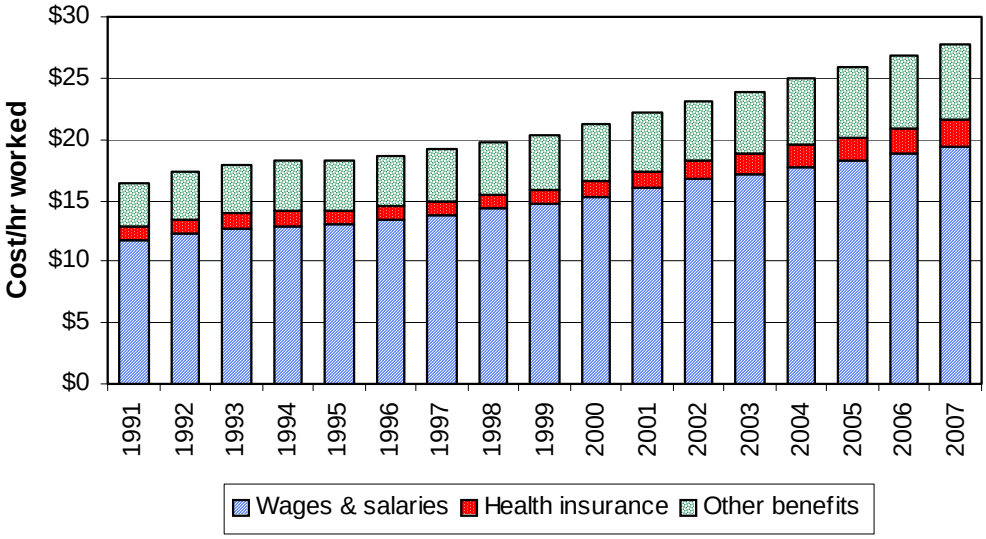
Source: U.S. Bureau of Labor Statistics, Office of Compensation and Working Conditions, *Employer Costs for Employee Compensation (ECEC), Historical Listing, 1991-2001, 2002-2003, and 2004-2007*, at [http://www.bls.gov/ncs/ect/home.htm].

Notes: Data are for civilian workers. Percentages are based on data reported in March of each year.

Growth in health insurance as a share of total compensation does not itself provide information on whether labor costs are increasing for employers. Labor costs change with changes in all of the components of compensation, including wages and salaries, health insurance, and other benefits. As shown in **Figure 3**, labor costs per hour worked grew from an average of $16.45 in 1991 to $27.82 in 2007. Over the same period, costs for wages and salaries grew from $11.81 to $19.47 per hour worked, health insurance costs grew from $1.01 to $2.19, and costs for other benefits grew from $3.63 to $6.16.

Change in the components of labor costs varies year-to-year. As shown in **Figure 4**, over the 1991-2007 period, the change in employer costs per hour worked for health insurance ranged from an increase of 11.9% in 1992 to a decrease of 6.3% in 1995; the average annual increase in costs per hour was 5.0%. Over the same period, the average annual increase in costs per hour worked was 3.2% for wages and salaries and 3.4% for other benefits.

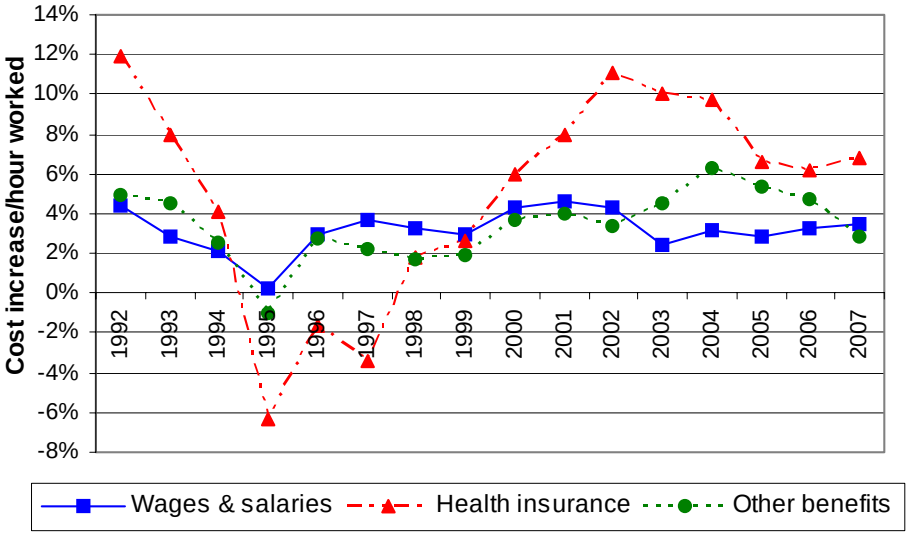
Figure 3. Employer Costs per Hour Worked for Employee Compensation, 1991-2007



Source: U.S. Bureau of Labor Statistics, Office of Compensation and Working Conditions, *Employer Costs for Employee Compensation (ECEC), Historical Listing, 1991-2001, 2002-2003, and 2004-2007*, at [http://www.bls.gov/ncs/ect/home.htm].

Notes: Data are for civilian workers. Amounts are based on data reported in March of each year. Other benefits include paid leave; overtime and other supplemental pay; life and disability insurance; pensions; and required contributions for Social Security, Medicare, unemployment insurance, and workers' compensation.

Figure 4. Growth in Employer Costs per Hour Worked for Employee Compensation, 1991-2007



Source: CRS analysis, based on data from the Bureau of Labor Statistics (see Figure 3).

Notes: See Figure 3.