

Cost of Employee Benefits in Small and Large Businesses

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This study examines the cost of the benefits that employers provide to their workers and how these costs vary with company size. It focuses on benefits that employers voluntarily provide: health insurance, private pension plans, paid vacation, and sick leave.

Overall Findings

Employees of small businesses have access to fewer benefits than do the employees of large businesses. Small and large businesses continue to provide benefits to their employees, but at a declining rate. Companies of all sizes have reduced the availability of health insurance to their employees due to the increasing cost associated with benefits in recent years. Access to retirement benefits is more prevalent among large firms than among small firms.

Highlights

- Paid vacation leave is the most frequently available benefit; access to pension plans is least common.
- Rates of access to paid vacation for both small and indeterminate size firms with more than 100 employees were similar to those in large businesses.
- Access to paid sick leave varied by firm size; over 81 percent of employees working for large firms reported having access to paid sick leave versus 65 percent for employees of small firms.
- The data indicate that large firms pay more in leave benefits per employee than do small businesses, since a larger share of employees have access to leave benefits in large firms than in small firms.
- The weighted average cost of health insurance premiums per enrolled employee is relatively high for the very smallest firms (fewer than 10 employ-

ees), and declines as firm size increases (25-99 employees); it increases again for the largest firms (more than 1,000 employees).

- The availability of health insurance benefits among small firms increased during the economic boom of the 1990s. Health insurance premiums per enrolled employee are usually highest in the very largest firms, but among smaller firms, the cost per enrolled employee tends to be highest among the smallest companies. Small companies experienced a faster increase in health insurance premiums than large companies did during the period from the mid-1990s through 2002.
- In 2002, a smaller share of employees were eligible to enroll in businesses' health insurance plans than in 1997, regardless of the size of the business.
- The smallest firms often make substantially larger contributions per participant than the largest firms. As a whole, more firms have defined-contribution plans than have defined-benefit plans.
- Access to retirement benefits is more prevalent in large firms than in small firms. Between 1998 and 2002 there was very little change in access to retirement plans.
- The smallest firms often make substantially larger contributions per participant for pension plans than the largest firms do. As a whole, more firms have defined-contribution plans than defined-benefit plans.
- In the largest firms with more than 500 employees, 75 percent of employees have access to a retirement plan, compared with 11 percent of employees in firms with fewer than 5 employees. In establishments with fewer than 5 employees that are contained within small firms with fewer than 500 employees, about 35 percent have access to retirement plans.

- In the largest firms, 95 percent offered at least one type of defined-contribution plan and 55 percent offered at least one type of defined-benefit plan. In the smallest firm size group, 88 percent offered at least one type of defined-contribution plan and about 10 percent offered at least one defined-benefit plan.

- Small firms tend to pay more in administrative costs per participant than do large firms in general.

Scope and Methodology

The main source of data for this study was the Medical Expenditure Panel Survey (MEPS) conducted by the U.S. Department of Health and Human Services' Agency for Health Care Research and Quality. Since the MEPS lacked several variables needed to conduct the study, it was supplemented by other databases such as the Statistics of U.S. Businesses (SUSB) and the Department of Labor's 5500 and 5500C/R forms (for private pension plans).

MEPS data from 1997, 1999, and 2002 were used to analyze health insurance coverage, retirement programs, and leave benefits. The Statistics of U.S. Businesses (SUSB) for 1997 and 2001 were used to determine payroll costs. Retirement costs were estimated using information from the 1998 5500 and 5500C/R filings; the share of employees covered by private retirement plans was obtained from MEPS.

Data analysis was limited by comparability issues, which made it impossible to make generalizations for certain years and industries. In particular, while SUSB data uses NAICS industry definitions, MEPS

used SIC codes then switches to NAICS. In addition, after 1998 the 5500 and 5500C/R forms stopped including information about the size of the firm sponsoring the pension plan. Firm-size categories used in the various databases also differ.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available at www.sba.gov/advo/research. Copies are also available from:

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