

### III. SUPPLEMENTS TO WAGES AND SALARIES

Supplements to wages and salaries consist of employer contributions for employee pensions and insurance funds (previously called other labor income) and employer contributions for government social insurance. Supplements amounted to 19 percent of compensation at the national level in 2006 (table C). In the new presentation of personal income, employer contributions for government social insurance is included as a component of supplements to wages and salaries, compensation, and total earnings. It also is included in total contributions for government social insurance, which consists of both employer contributions and employee and self-employed contributions and which is deducted in the calculation of personal income and net earnings. This change provides the user with a more comprehensive measure of the labor costs of production by industry in an area, but it does not affect personal income or net earnings by place of residence.

#### **Employer Contributions for Employee Pension and Insurance Funds**

Employer contributions for employee pension and insurance funds consists of employer contributions to private employee pension and welfare funds, privately administered workers' compensation plans, government employee health and life insurance plans, and government employee retirement plans.<sup>1</sup> Employer contributions for employee pension and insurance funds accounted for 13 percent of compensation at the national level in 2006 (table C).

**Private employee pension and welfare funds.**—Contributions by employers to private employee pension and welfare funds, consist of payments to pension and profit-sharing plans, premiums for group health and life insurance plans, and payments to supplemental unemployment benefit plans. These accounted for 8.1 percent of compensation in 2006 (table C). The property income of pension and profit-sharing plans is included in other components of personal income. However, the capital gains of and benefits paid by these plans are not counted as part of personal income.

The state and county estimates of the payments to these private benefit plans are prepared for each private industry at the North American Industrial Classification System (NAICS) three-digit industry level. Because state and county data are not available from the sources used to prepare the national estimates, the payments amount for each industry is allocated to the states—and the state estimates, to counties—in proportion to the

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<sup>1</sup> Employer contributions for employee pension and insurance funds excludes employer contributions paid to social insurance funds, such as those for the Old-Age, Survivors, and Disability Insurance (social security) program. Generally, government-administered funds that provide benefits to individuals are classified as social insurance; however, government employee retirement plans are treated similarly to private pension plans. The benefits paid from social insurance funds are counted as part of the transfer receipts component of personal income. For the difference in the treatment of government employee retirement plans and social security, see footnote 10 in Brent R. Moulton, Robert P. Parker, and Eugene P. Seskin, "A Preview of the 1999 Comprehensive Revision of the National Income and Product Accounts," *Survey of Current Business* 79 (August 1999):11.

estimates of wage and salary disbursements for the industry.<sup>2</sup> However, for the large payments made by two motor vehicle manufacturing firms to previously under funded pension funds in 1992-95, the contribution made by each firm was allocated to states and counties in proportion to the firms' employment in motor vehicle manufacturing plants.

**Privately administered workers' compensation plans.**—Contributions by employers (private and government) to privately administered workers' compensation plans consist of net premiums paid by employers to private insurance companies for workers' compensation insurance, benefit payments by self-insured employers, and court-awarded payments by the railroad industry and the water transportation industry for work-related injuries.<sup>3</sup> Employer contributions to these plans accounted for .8 percent of compensation in 2006 (table C). Because of the lack of county data, the state estimates of employer contributions in all industries are allocated to counties in proportion to county estimates of wages and salaries by industry.

**Government employee health and life insurance plans.**—Government employee health and life insurance plans are treated similarly to private employee health and life insurance plans in the National Income and Product Accounts. Employer contributions to these plans accounted for 1.9 percent of compensation in 2006 (table C). Employee contributions to these plans and benefits paid by these plans are not counted in personal income. State and county estimates of the payments to these plans are prepared separately for each level of government. Because state and county data are not available from the sources used to prepare the national estimates, payments to government employee health and life insurance plans are allocated to states—and the state estimates to counties—in proportion to BEA employment estimates. Payments are allocated by employment rather than wages because health care premiums typically are a fixed amount per employee rather than a percentage of wages.

**Government employee retirement plans.**—Government employee retirement plans are treated similarly to private employee pension and profit sharing plans in the National Income and Product Accounts.<sup>4</sup> Employer contributions to the plans are counted as part of employer contributions for employee pension and insurance funds, and the property income (but not the capital gains) received by the plans is counted as part of personal dividend income or personal interest income. Employer contributions to these

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<sup>2</sup> Because wage and salary disbursements by industry are used to allocate the national estimates to states and counties, the state and county estimates reflect the various mixes of industries among the states and counties and the wide variation in contribution rates relative to wages among industries, but not the variation in contribution rates among states and counties for a given industry.

<sup>3</sup> Programs for workers' compensation insurance are authorized by law in all states and the District of Columbia. All but five states authorize programs for private workers' compensation insurance. Federal laws authorize the court-awarded payments by the railroad industry and the water transportation industry. Laws in many states authorize self-insurance. Workers' compensation insurance administered by government-operated funds is classified as social insurance, the premiums paid to these funds are classified as employers' contributions for social insurance, and the benefits paid by these funds are classified as transfer receipts to persons.

<sup>4</sup> In addition to, or instead of coverage under government employee retirement plans, many government employees are covered by the Old-Age, Survivors, and Disability Insurance program (social security); see footnote 1.

plans amounted to 2.2 percent of compensation in 2006. Employee contributions to the plans and the payment of benefits to retired persons and survivors are not counted in personal income.

Government employee retirement plans for Federal civilian employees consist of the Civil Service Retirement System, which covers only employees hired before 1984; the Basic Benefit Plan of the Federal Employees Retirement System, which covers mainly employees hired after 1983; the Thrift Savings Plan; and several plans that cover specific groups of employees, such as the plan for Foreign Service Officers. The national estimate of employer contributions to all of the retirement plans for Federal civilian employees is allocated to states—and the state estimates to counties—in proportion to Federal civilian wages and salaries.

The national estimate of employer contributions for military retirement is allocated to states—and the state estimates to counties—in proportion to military wages and salaries.

Government employee retirement plans for state and local government employees consist of both plans operated by state and local governments and by private carriers. The pension plans for state and local government employees operated by private carriers consist only of annuity funds for select groups of employees—primarily teachers. Some local government employees are covered by plans operated by state governments. Employee contributions to state and local government plans may or may not be required.

The state-level estimates—like the national estimates—of employer contributions to government-operated plans are based on data from the Census Bureau's annual *State and Local Government Employee-Retirement Systems*. State estimates of contributions for state government employees are based on the total contributions received by the state-operated plans less the contributions made for local government employees to those plans. State estimates of contributions for local government employees are based on the total contributions received by the plans operated by local governments plus the contributions made for local government employees to state-operated plans. State estimates of contributions made for state government employees and local government employees are each allocated to counties in proportion to the corresponding estimates of wages and salaries.

The state-level estimates—like the national estimates—of government employer contributions to privately operated plans are based on data from the Teachers Insurance and Annuity Association/College Retirement Equities Fund. The state estimates are allocated to counties in proportion to the county estimates of wages and salaries for state and local government education.

### **Employer Contributions for Government Social Insurance**

Employer contributions for government social insurance consist of employer payments under the following government social insurance programs: Old-Age, Survivors, and Disability Insurance (OASDI); Hospital Insurance (HI); unemployment insurance; railroad retirement; pension benefit guaranty; military medical insurance; veterans life insurance; Federal workers' compensation; state-administered workers' compensation; and state-administered temporary disability insurance. These contributions amounted to 6.1 percent of compensation at the national level in 2006 (table

C). The estimates of employer contributions for government social insurance are developed for each program by industry.

**Old-Age, Survivors, and Disability Insurance and Hospital Insurance.—**Contributions by employers for OASDI and HI are made on behalf of private sector, federal, state, and local government employees who are covered by the OASDI and HI programs and account for about 5.1 percent of compensation (table C).

Most employers contribute to both the OASDI and HI programs on behalf of their employees. However, employees of the railroad industry, federal employees in the Civil Service Retirement System, and some state and local government employees covered under their employers' pension programs are covered by the HI program but not by the OASDI program.

The national estimates of contributions are based on data from the Social Security Administration. State estimates of employer contributions to OASDI and HI are prepared separately for each private industry, for Federal civilian employees, for military personnel, for state government employees, and for local government employees.

County estimates of contributions by private sector employers are based on wage and salary disbursements that have been adjusted so that the average wage for each county and industry does not exceed the annual maximum taxable wage. County estimates of contributions by Federal civilian employers are prepared in proportion to the county estimates of wage and salary disbursements for Federal civilian employees. County estimates of contributions by the military are prepared in proportion to county estimates of military wage and salary disbursements excluding pay-in-kind. County estimates of contributions to OASDI and HI by state and local government employers are prepared in proportion to county estimates of wage and salary disbursements for state and local government employees.

**Unemployment insurance.—**Employer contributions for unemployment insurance consist of state unemployment insurance (UI) taxes on employers; Federal unemployment taxes; railroad unemployment insurance taxes; and an imputation for Federal contributions for the Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Members (UCX) programs. Employer contributions for unemployment insurance account for .6 percent of compensation (table C).

The state unemployment insurance taxes and the Federal unemployment taxes provide for payments of unemployment compensation to workers who have lost their jobs. Private sector employers covered by the unemployment insurance program and state and local governments pay both a Federal and a state unemployment tax.

The national estimates of state unemployment insurance taxes on employers and Federal unemployment taxes are based on data from the Employment and Training Administration. The state estimates are based on employer contributions data by state and industry from the Unemployment Insurance Contributions Report, obtained from the Bureau of Labor Statistics of the U.S. Department of Labor. County estimates of state unemployment insurance taxes and Federal unemployment taxes are prepared in proportion to the estimates of wage and salary disbursements.

The Railroad Unemployment Insurance Act of 1938 established a system of benefits for unemployed railroad workers that was financed by railroad employers and administered by the Railroad Retirement Board (RRB). National estimates of employer contributions for this program are based on data from the *Monthly Treasury Statement of Receipts and Outlays of the United States Government*. State and county estimates of employer contributions for railroad employees' unemployment insurance are based on wage and salary data from the RRB. The data used for the county estimates, which are reported by the RRB on a place-of-residence basis, are converted by BEA to a place-of-work basis using journey-to-work data from the 2000 Census of Population.

The Unemployment Compensation for Federal Employees (UCFE) program and the Unemployment Compensation for Ex-Service members (UCX) program provide benefits to former Federal civilian employees and to unemployed, newly discharged servicemen. Estimates of employer contributions for these two programs are imputations based on benefits paid to unemployed former Federal employees.

Employer contributions for the UCFE and UCX programs are estimated separately. National estimates are based on data from both the Office of Management and Budget and the Employment and Training Administration. County estimates are based on wage and salary disbursements for Federal civilian workers and for active duty military personnel.

**Military Employee Programs.**—Contributions for military employee programs consist of contributions for veterans' life insurance and contributions for military medical insurance. Contributions for veterans' life insurance are the premiums paid by the Federal government under five life insurance programs administered by the Department of Veterans Affairs (DVA). The national estimate of these contributions is based on unpublished data provided by DVA. Employer contributions for military employee programs account for .03 percent of compensation (table C).

Military medical insurance (TRICARE) is a program that covers health care at nonmilitary facilities for active duty and retired members of the uniformed services, their families, and survivors. Benefits to dependents of active duty personnel of this program are treated as paid by a social insurance fund in order to make the compensation of military personnel comparable to the compensation of other government and private sector employees. A social insurance contribution—equal to the benefits paid—is imputed to the military employer. The national estimates of employer contributions for military medical insurance are based on data from the Department of Defense. State and county estimates for the combined military employee programs are based on BEA estimates of military wage and salary disbursements.

**Other Programs.**—State estimates of contributions to railroad retirement; pension benefit guaranty; Federal workers' compensation; state-administered workers' compensation; and state-administered temporary disability insurance are combined before allocating to counties by BEA estimates of wage and salary disbursements by industry. Employer contributions for these other programs account for .37 percent of compensation (table C).

Railroad retirement is treated in the NIPA as a social insurance fund. Railroad employers contribute a percentage of wages that matches the rate of OASDI and HI. In

addition, employers contribute a supplemental tax that is calculated to yield benefits comparable to private pensions. The national estimates of employer contributions for this federally-administered program are based on taxable wages and tax rate data from the RRB. The state estimates are prepared in proportion to wages and salaries as reported by RRB.

The Pension Benefit Guaranty Corporation (PBGC) is a Federal government corporation established by Title IV of the Employee Retirement Income Security Act of 1974 to encourage the continuation and maintenance of defined benefit pension plans, and to provide timely and uninterrupted payment of pension benefits to participants and beneficiaries in plans covered by the PBGC. The PBGC collects insurance premiums from employers that sponsor insured pension plans. Coverage in this program is not universal. The national estimates of employer contributions to PBGC are based on data from the budget of the United States. The state estimates are based on BEA employment estimates by industry.

The Federal government pays workers' compensation benefits to Federal employees injured on the job. All estimates of workers' compensation contributions are imputations based on estimates of benefits paid to employees. The national estimates of employer contributions for Federal workers' compensation are based on data from the Employment Standards Administration of the Department of Labor. The state estimates are based on Federal civilian wages and salaries.

Many states have created state-administered workers' compensation funds to provide benefits to individuals with employment-related injuries and illnesses and to survivors of individuals who died from employment-related causes. These government insurance funds and state-administered second-injury funds are treated in the NIPA as social insurance funds. The national and state estimates of employer contributions for state-administered workers' compensation are based on government finance data provided by the Census Bureau.

State-administered temporary disability insurance programs provide workers with partial compensation for loss of wages caused by temporary non-occupational disability. Five states have a temporary disability insurance program: California, Hawaii, New Jersey, New York, and Rhode Island. Of these five states, only New Jersey has a program that requires employers to contribute. Therefore, the national estimate equals the estimate for the state of New Jersey and is based on government finance data obtained from the Census Bureau. This estimate is distributed to industries by BEA estimates of wage and salary disbursements.