
Life insurance
Social Secur
Health insuran
Sick leave
Paid le
Workers' com

An overview of employee benefits

By Elka Jones

When it comes to evaluating job offers, most jobseekers today know that salary isn't everything. Benefits are an important part of job-offer negotiations for employers and employees alike.

And for good reason. According to the U.S. Bureau of Labor Statistics (BLS), benefits accounted for nearly 30 percent of employers' total compensation costs in March 2005. The value of many employee benefits—such as paid sick leave or health insurance—can be greater than their monetary worth.

But which jobs are more likely to offer benefits? What types of benefits are available? What percent of workers receive benefits? This article addresses these and other questions with data from the BLS National Compensation Survey of establishments.

The first section of the article gives a brief retrospective of employee benefits and then moves forward to highlight their current value and cost. The second section describes the benefits that employers are legally required to provide to their employees. The third section explains some of the most common types of benefits available and provides data on the percent of employees who have access to these benefits. The last section offers suggestions for finding additional resources.

Elka Jones is a contributing editor to the OOQ, (202) 691-5719.

Benefits: Their history, value, and cost

A century ago, employer-provided benefits, such as paid time off or medical insurance, were uncommon. Today, by contrast, these and other benefits are often an important part of how workers are compensated. The box on page 20 illustrates how far employee benefits have come since the early 1900s.

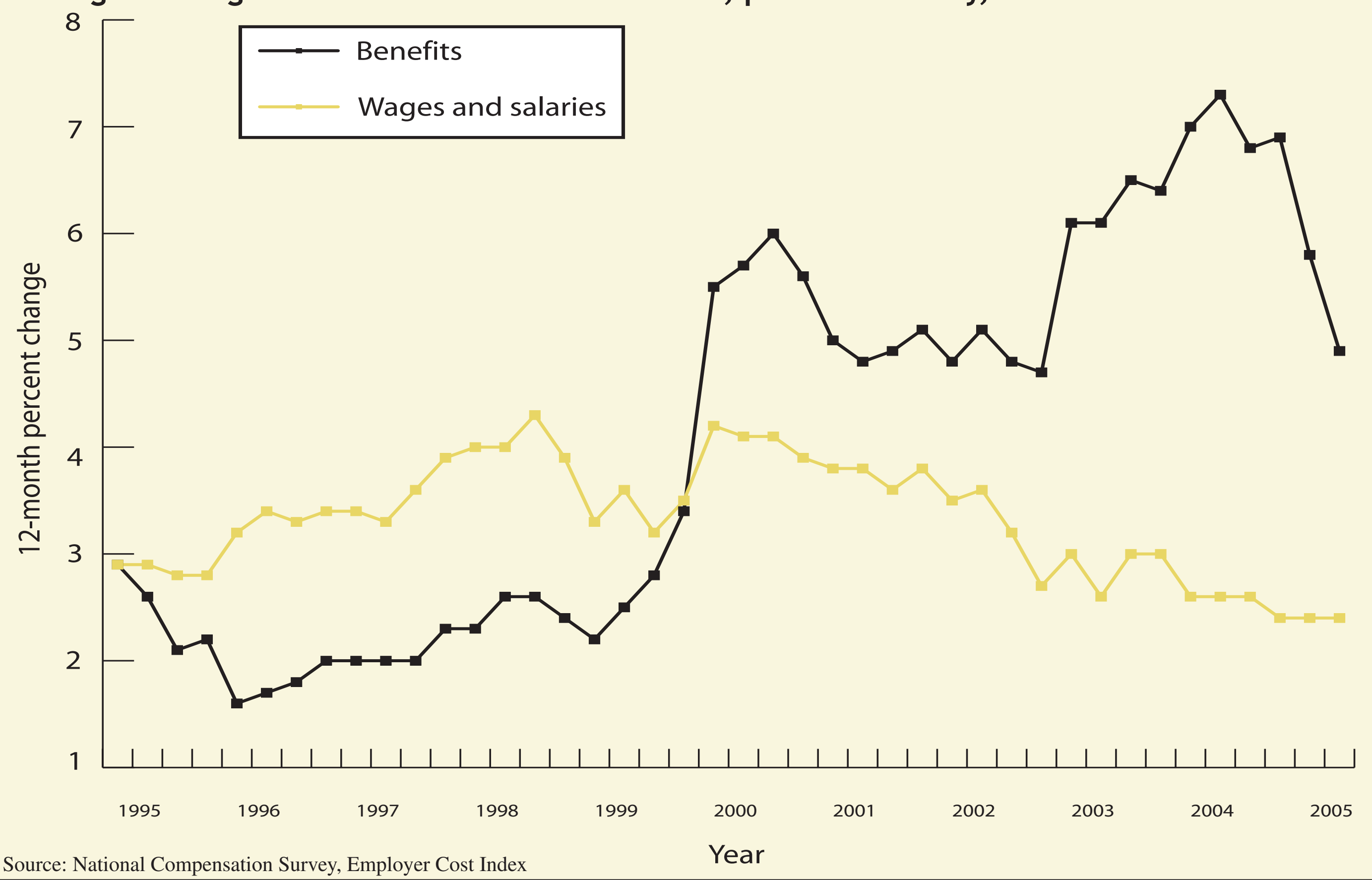
Benefits continue to evolve. For example, many employers offer an increasing array of options that provide workers with greater flexibility in balancing work with other facets of life. Family-friendly policies (such as telecommuting) and career-related benefits (such as educational assistance) are just a few of the offerings from contemporary employers.

But providing higher levels of benefits comes at a price. Over the past decade, the change in benefits costs has outpaced the change in the cost of wages and salaries. (See chart 1.) This is attributable, in part, to the increased cost of healthcare benefits. In March 2005, the average employer in private industry spent just over $7 on benefits and about $17 on wages and salaries for every hour an employee worked. (See chart 2.)

Additionally, benefits are not evenly spread among the workforce; some workers are more likely than others to have access to benefits. Full-time workers, for example, have greater access to benefits than do part-time workers, and workers in large establishments usually have greater access to benefits than do those in small establishments. Workers who belong to a labor union also are more likely to be offered benefits than those who are in jobs in which workers are not unionized. Moreover, having access to a benefit does not necessarily mean that workers choose to receive that benefit. It simply means that the employer makes the benefit available.

Availability of, and spending on, benefits also varies by occupation. In March 2005, employers spent the least amount on benefits for service workers and the most on benefits for management, business, and financial workers. (See chart 3 on page 16.)

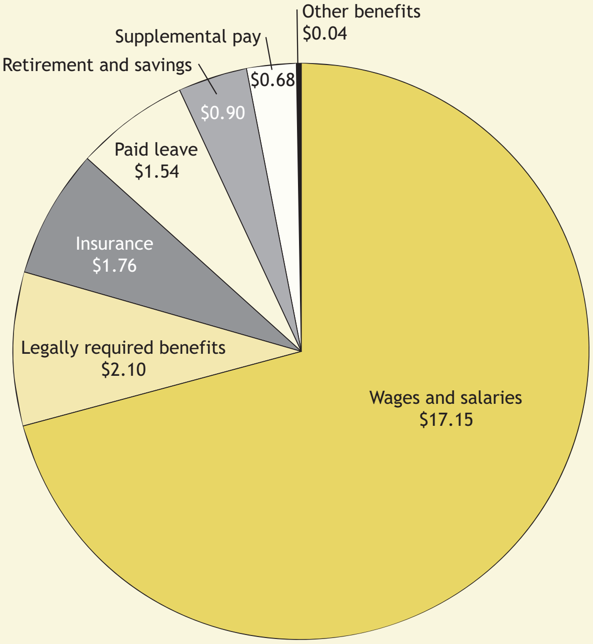
Chart 1
Changes in wages and salaries and benefit costs, private industry, 1995-2005



Source: National Compensation Survey, Employer Cost Index

Chart 2

Why a $17.15 paycheck costs employers $24.17: Employer costs for employee compensation, private industry, March 2005



Source: National Compensation Survey, Employer Costs for Employee Compensation, March 2005

Legally required benefits

If you've ever earned a paycheck, you've probably noticed that some of your money is taken out for things other than taxes. Where does this money go?

Some of these deductions go toward paying for legally required benefits. For example, both employers and employees must contribute to two mandatory social insurance programs: Social Security and Medicare. Social Security, the largest component of legally required benefits, helps provide financial support to workers and their families when workers retire, die, or become disabled. Medicare provides healthcare assistance to older workers and to people with long-term disabilities.

Contributions to these programs are split evenly between employees and employers. The employees' portion is taken directly from their paychecks in the form of a tax, often referred to and noted on pay stubs as FICA (Federal Insurance Contributions Act) or OASDI (old age, survivors, and disability insurance) for Social Security deductions and as MHI (Medicare hospital insurance) for Medicare deductions. Employers' and employees' contributions are deposited to a financial institution and then transferred to the Internal Revenue Service.

Other legally required benefits include Federal and State unemployment insurance and, in most States, workers' compensation. Employers contribute to the Federal-State Unemployment Insurance Program, which provides financial assistance to workers who lose their jobs through no fault of their own; at least three States require employees to make contributions, too. In most States, employers also must contribute to State workers' compensation programs, which provide financial support to people who are unable to work as a result of a workplace injury or illness.

Optional benefits

Other types of benefits are not required by law but are commonly provided to workers. Because these benefits are voluntary, employers and employees have greater control over them. The table on page 17 shows some of the most commonly offered benefits and the percent of workers who have access to them. The benefits in the table are described on the pages that follow and include healthcare, life, and other insurance; paid leave and retirement; and other benefits, such as career-related and family-friendly programs.

Insurance

Following mandatory contributions to legally required benefits, such as Social Security Insurance, the next largest component of employer benefit costs is voluntary insurance benefits. In March 2005, insurance accounted for about 7 percent of total employer costs for employee compensation in private industry, or $1.76 of every $24.17 that employers spent in labor costs. Healthcare and life insurance are the most commonly offered types of insurance. Other types include short- and long-term disability insurance and long-term care insurance.

Healthcare. Healthcare benefits can include medical care, dental care, vision care, and prescription drug plans. About 63 percent of establishments offered healthcare benefits to current workers in March 2005. Larger establishments were most likely to offer these benefits: among establishments with at least 100 employees, 96 percent offered healthcare benefits. Comparatively, among establishments with fewer than 100 employees, 61 percent offered healthcare benefits.

Medical care plans cover payment or reimbursement of payment when workers or their families receive medical attention. Some employers pay the entire premium, or cost of participating in a plan, but most share in the expense. In March 2005, about 76 percent of workers who participated in medical care plans paid a portion of the premium for individual coverage; about 88 percent of workers paid part of the premium for family coverage for themselves and their dependents.

The amount that employees with medical insurance are required to contribute varies, but employers pick up most of the cost. On average, employees' shares of the total premium were 18 percent for self-coverage and 29 percent for family coverage. In March 2005, the average employee contribution was $68.96 a month for self-coverage and $273.03 a month for family coverage.

In addition to paying premiums, workers often must pay other costs associated with medical care plans. Because these costs are not covered by employers, it is important to understand them—particularly if employers offer a choice of plans.

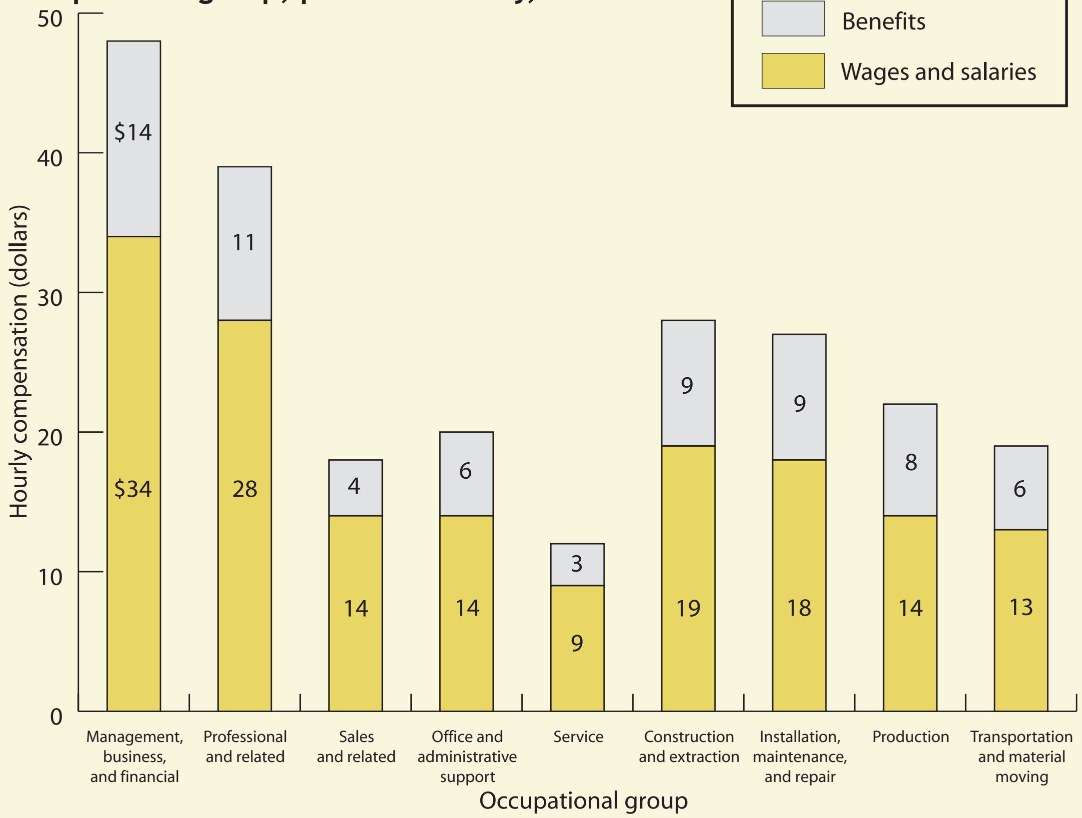
For example, many plans require copayments, which are predetermined amounts that patients pay for each visit to a medical care provider. Some plans also have an annual deductible, which means that plan members are responsible for paying for care up to a specified dollar amount; if this amount has been met within a year, the plan then begins to cover more of the members' expenses. Another form of cost sharing is coinsurance, which requires plan members to pay a percentage of the cost after the deductible; the plan then pays the rest. Healthcare plans may limit the amount that individuals are required to pay by setting limits on out-of-pocket payments. Plans can also limit the amount that they will pay by setting maximum coverage ceilings.

Medical plans typically fall into 1 of 2 categories: Prepaid and indemnity plans. Prepaid plans are commonly referred to as health maintenance organizations (HMOs). Indemnity plans include preferred provider organizations (also known as PPOs) and traditional fee-for-service plans.

HMOs have a designated set of healthcare providers, often located within the same facility, that plan members must use in order for the cost of medical care to be covered. In a PPO, plan members choose which doctors or other healthcare professionals will provide their medical care, paying less for providers with whom the insurance company has negotiated special rates. Fee-for-service plans allow members to receive care from the healthcare providers of their choice without any effect on cost.

Among all full-time workers who were covered by employer medical care plans in 2002, the most recent year for which data are available, about 58 percent were enrolled in PPOs, 33 percent in HMOs, and 7 percent in fee-for-service plans. The remaining 2 percent were covered by other types of plans. Often, prescription drug

Chart 3
Average employer costs for employee compensation by occupational group, private industry, March 2005



Source: National Compensation Survey, Employer Costs for Employee Compensation, March 2005 plans are offered in conjunction with a medical plan.

Benefits for dental and vision care were less common in March 2005. These types of insurance benefits often include premiums, deductibles, copayments, and annual plan maximums.

Some employers also offer health-spending accounts, which may be part of a flexible spending account (also known as "125 plans," because of the section of the U.S. Tax Code that provides for them, or as "cafeteria plans"), a medical savings account, or a health reimbursement arrangement. Although the details of these plans vary, they generally offer ways for employers or employees to set money aside for healthcare expenses, often without paying income tax on the money.

Life and other. Employers may offer several other types of insurance benefits. These include life insurance, short- and long-term disability insurance, and long-term care insurance.

Most life insurance policies guarantee that a predetermined sum will be paid to designated recipients, called beneficiaries, upon the policyholder's death. About 52 percent of workers had access to life insurance benefits through their employers in March 2005. Of those, most had premiums that were paid entirely by employers.

Disability insurance benefits typically provide workers with a portion of their salary if they are unable to work because of illness or injury. In establishments with 100 or more workers, short- and long-term disability benefits were offered to 55 and 44 percent of workers, respectively, in March 2005. For workers in establishments with fewer than 100 employees, these respective figures decreased to 28 and 19 percent.

As the population ages, long-term care insurance increasingly is offered by employers. This type of insurance provides custodial care, home care, and nursing home care for periods longer than 1 year. Frequently, employees pay the entire premium for long-term care insurance, which the employer offers at a lower, group rate.

Paid leave and retirement

In March 2005, paid leave accounted for about 6.4 percent of employers' total costs for employee compensation, and retirement and savings benefits made up 3.7 percent. Together, these benefits cost private-industry employers $2.44 of every $24.17 they spent in labor costs.

Paid leave. The most commonly offered employee benefit in March 2005 was paid leave, which provides

Selected benefits and percent of employees with access to the benefits, private industry, March 2005

Insurance	
Health	
Medical care	70%
Dental care	46
Vision care	29
Life and other	
Life	52
Short-term disability	40
Long-term disability	30
Long-term care	11
Paid leave and retirement	
Holidays	77
Vacations	77
Jury duty leave	69
Funeral leave	68
Sick leave	58
Military leave	48
Personal leave	36
Family leave	7
All retirement plans[1]	60
Defined benefit	22
Defined contribution	53
Other	
Career-related	
Education assistance	
Work related	49
Non-work related	14
Nonproduction bonus[2]	47
Stock options	8
Subsidized commuting	5
Health promotion	
Employee assistance programs	40
Wellness programs	23
Fitness centers	13
Family friendly	
Childcare assistance	14
Adoption assistance	9
Flexible workplace	4
Employer-provided PC (offsite use)	3

Source: National Compensation Survey: Employee Benefits, March 2005

[1] Total is less than the sum of defined benefit and defined contribution because some employees have access to both types of plans.
[2] Includes bonuses such as end-of-year, holiday, referral, employee recognition, and cash profitsharing.

workers with income for periods in which they are not on the job. Employers may offer paid leave for designated holidays, vacations or other personal time, illnesses or injuries, and fulfilling jury duty or military service.

In March 2005, more than three-fourths of workers in private industry had access to paid leave for holidays and vacations. The average number of paid holidays was 8 days per year, although 32 percent of workers with paid holidays received 6 or fewer days.

The number of vacation days offered usually increases the longer an employee has worked for an employer. Workers with paid vacation leave in March 2005 averaged about 9 days per year after 1 year of service, with about three-fourths of workers receiving between 5 and 10 days. After 3 years of service, the average increased to 11 days per year; after 5 years, it increased to almost 14 days; and after 25 years of service, the average was about 19 days per year.

Among the other types of paid leave available to private-industry workers in March 2005, time off to report for jury duty was the most prevalent, followed closely by funeral leave. Other paid leave available to workers included sick leave, military leave, personal leave, and family leave.

Retirement. Two basic types of retirement plans are offered by employers: Defined contribution and defined benefit plans. In March 2005, nearly two-thirds of private-industry workers had access to one or both types of plan.

More than half of workers were offered defined contribution plans in March 2005—and most of them included a 401(k) feature. Named for the section of the U.S. Tax Code that created them, 401(k)s allow employees to make pretax contributions to retirement accounts.

In defined contribution plans, contributions to an individual employee account are made by either the employer alone or both the employer and the employee. Often, employees designate how the money is to be invested until it is made available to them upon retirement. Employees' contributions are typically taken out of their paychecks before taxes; they do not pay taxes on the money until they withdraw it. Employees can choose how much they would like to contribute, up to a set limit. Employers might match this amount, up to a certain percent. The benefits paid under a defined contribution plan depend largely on the amount contributed by an employee and the investment earnings of the plan.

Defined benefit plans, the other main type of retirement benefit, also are known as traditional pension plans. These plans are much less common than defined contribution plans. Retirees with defined benefit plans receive a guaranteed monthly stipend, which often is based on their salary history and years of employment.

But many of the defined benefit plans created today are more flexible. With cash-balance pension plans, for example, employers contribute toward an employee's account and invest that money to maintain a predetermined level of future benefits. Employees can choose to take their benefits as a lump sum when they retire. In 2002, the most recent year for which data are available, 17 percent of workers with defined benefit plans had cash-balance plans.

Flexibility of retirement and other benefits is important for workers who move from one job to another. To learn how switching employers can affect retirement and healthcare benefits, see "Does changing jobs affect my benefits?" on the facing page.

Other benefits

Employers may offer a variety of less common benefits. For example, some workers have access to benefits that promote health, such as fitness centers and wellness programs. Benefits might also include career-related, health-promotion, and family-friendly benefits. When offered, such benefits are popular among employees. Availability varies by job and geographic location, among other factors.

Career-related. Career-related benefits include educational assistance, bonuses, stock options, and commuting subsidies. Reimbursement for educational expenses is offered by a significant number of employers. Work-related education assistance was more prevalent than non-work-related assistance.

In March 2005, nearly half of workers in private industry had access to some type of bonus that was not tied to a specific performance goal. The most common of these were end-of-year bonuses (available to 11 percent of workers) and holiday bonuses (available to 10 percent). Referral, cash profitsharing, and employee recognition bonuses also are relatively common, with 4 to 8 percent of workers having access to these benefits.

Four percent of workers had access to a payment-in-lieu-of-benefits bonus. When offered, this type of bonus is available to employees who waive other employer

Does changing jobs affect my benefits?

You don't necessarily lose all of your benefits when you stop working for an employer. To some extent, benefits such as health insurance and retirement savings are portable.

***Health insurance*.** If you leave your job before you find another job that provides health insurance, you might be able to continue coverage temporarily under your previous employer's plan. To do so, however, you probably will have to pay the entire premium—including the part that used to be paid by your employer—up to 102 percent of the cost of the plan.

This option is available through the Consolidated Omnibus Budget Reconciliation Act, a Federal law commonly referred to as COBRA. Provided that you weren't fired for gross misconduct, you qualify under COBRA if you previously participated in your employer's group healthcare plan and if your employer had 20 or more employees.

Another Federal law, the Health Insurance Portability and Accountability Act (HIPAA), helps to ensure that people who have certain preexisting medical conditions are able to qualify for health insurance when they leave or change jobs. Some medical conditions, such as cancer, make it difficult for people who have the condition to qualify for health insurance. HIPAA requires healthcare plans to allow participation in a new plan by any individuals who previously were covered by an employer's health insurance plan, even if these individuals would not ordinarily qualify because of their medical condition.

***Retirement benefits*.** Some retirement benefits also are portable. Because most jobs are under the Social Security Insurance system, Social Security benefits generally transfer with you from one job to another. The portability of both defined contribution and defined benefit plans varies, but these plans are increasingly designed to be flexible.

If you have a defined contribution retirement plan, such as a 401(k), you are always able to keep your own contributions. To keep the contributions that your employer has made, typically you must be vested in the plan. To be vested means that you have a legal right to the plan's benefits, usually because you have been a plan member for a specified number of years. Under a typical cliff-vesting schedule, you work for 3 years to become vested in employer contributions; if you work less than the specified time, you receive none of the benefit. Under a graduated-vesting schedule, you gradually become vested over a period of 6 years, receiving a greater portion of the benefit for each additional period during which you work for the employer.

When you change jobs, the retirement benefits you have accumulated are either kept in your previous plan or transferred to another plan or retirement account. Transferring money from one retirement plan to another is commonly referred to as a "rollover." A direct rollover moves the funds from one account to another.

Another method of transferring funds from a defined contribution plan is an indirect rollover, which involves taking your money out of an existing fund and putting it into another fund within 60 days. Unlike money in a direct rollover, however, money from an indirect rollover is considered income when it is withdrawn—and is therefore taxed, with the tax amount deducted before you receive your money. If you put the money into another fund, you get back this deduction when you file your taxes. But until then, you must make up the difference when transferring the money to another fund.

Traditionally, the proceeds of defined benefit plans have been less portable than those arising from defined contribution plans. But some types of defined benefit plans, such as cash-balance plans, are more portable.

benefits, such as medical insurance or sick leave. Employers save money because they do not have to pay for the benefit, and they pass all or some of that savings on to the employee.

Workers who had access to stock options had the right to buy stock—at a fixed price and within a set amount of time—in the establishment at which they were employed. Commuting subsidies helped to reimburse workers for costs they incurred getting to and from work.

Health promotion. Many employers recognize that healthy workers are more productive. For this reason, some employers offer benefits that encourage employee wellness.

Employee assistance programs were the most common type of health-promotion benefit offered to private-industry workers in March 2005. These programs provide confidential counseling or other support to employees facing work-related or personal difficulties.

Changes in compensation during the 20th century

The compensation that employers gave to workers changed over the 20th century, from simple pay to pay plus a wide selection of benefits. Although an individual employer may have offered any of the benefits shown at any given time, the following chart illustrates typical benefits provided by large employers in the year shown.

This chart is excerpted from an article written by Albert E. Schwenk and Jordan N. Pfuntner. The article originally appeared in the fall 2001 issue of *Compensation and Working Conditions*, a publication produced by BLS.

	Year				
Compensation	1900	1925	1950	1975	2000
Wages	•Wages for time worked or pieces produced	•Wages for time worked or pieces produced	•Wages for time worked or pieces produced	•Wages for time worked or pieces produced •Annual bonuses	•Wages for time worked or pieces produced •Annual bonuses •Pay for perfomance
Time off		•Paid holidays	•Paid holidays •Paid vacation	•Paid holidays •Paid vacation	•Paid holidays •Paid vacation •Unpaid family leave
Healthcare		•Company doctor	•Basic medical plan	•Basic and major medical plan •Medicare •Dental plan	•Choice of medical plans •Medicare •Dental, vision, and prescription drug plans
Life insurance		•Benevolent association death and disability benefits	•Life insurance and disability benefits	•Life insurance •Paid sick leave	•Life insurance •Paid sick leave
Retirement			•Social Security	•Social Security •Defined benefit pension	•Social Security •Defined benefit pension •401(k) and savings plans

Other health-promotion benefits include wellness programs and fitness centers. Wellness topics might include tips for stress relief or healthy eating. Onsite fitness centers make exercise convenient for busy workers.

Family-friendly. More workers are opting to remain in the labor force while raising their children. To attract and retain these employees, some employers offer family-friendly benefits. Some of these benefits, such as financial assistance for childcare or for adoption, are specifically designed to help parents or future parents. Other employers allow employees greater flexibility in scheduling their work hours—a benefit enjoyed by workers both with and without family-focused responsibilities.

Among the forms of childcare assistance provided by employers in March 2005 were childcare resource and referral services (to which about 10 percent of workers had access), on- or off-site childcare (about 5 percent), and employer-provided childcare funds (about 3 percent). Additionally, about 9 percent of workers had employer-provided access to adoption assistance.

Flexible workplace benefits offer workers the convenience of performing job duties from outside the office. These benefits were most likely to be offered by employers in metropolitan areas. Some employers provided personal computers for employees to use when working away from the office.

For more information

Benefits are not always quantifiable. Work experience or on-the-job training, for example, can be valuable benefits, particularly for people who are just starting out in a career. The type and scope of benefits are an important consideration for any jobseeker.

Public libraries and career counseling offices may have resources about employee benefits. School counselors also may have some information about the types of benefits packages offered by local employers. But often, the best source for details about benefits is from employers themselves. Employers' human resources departments and Web sites usually provide information about specific benefits.

Most of the data in this article are from the BLS National Compensation Survey (NCS). These data measure both the cost of employee compensation and the level of employee access to and participation in selected benefits. In this article, data are for private industry workers only. Federal and State government, self-employed, private household, and agricultural workers are not included, in part because comparable data are not available.

Data in this article are available from:

U.S. Bureau of Labor Statistics
Office of Compensation and Working Conditions
2 Massachusetts Ave. NE., Room 4175
Washington, DC 20212-0001
(202) 691-6199
www.bls.gov/ncs

The *Monthly Labor Review*, published by BLS, has a number of articles that analyze benefits-related data. For example, a recent study of changes in employer-provided coverage for treatment of mental disorders and substance abuse, "Trends in employer-provided mental health and substance abuse benefits," is in the April 2005 issue. The article is available online at **www.bls.gov/opub/mlr/2005/04/art3full.pdf**. The *Review*'s subject index is online at **www.bls.gov/opub/mlr**.

The U.S. Department of Labor offers more detailed information about many of the topics discussed in this article. For example, information is available from the Employment Benefits Security Administration, which oversees many private retirement and healthcare plans, helps to educate workers about these plans, and enforces many of the policies and regulations that affect employee benefits. To learn more, contact:

U.S. Department of Labor
200 Constitution Ave. NW.
Washington, DC 20210
Toll free: 1 (866) 4-USA-DOL (487-2365)
www.dol.gov

State departments of labor provide information about requirements for employee benefits in their States. The blue pages of local telephone books give contact information for State labor department offices, which are also listed online at **www.dol.gov/esa/contacts/state_of.htm**.

The Employee Benefit Research Institute, a nonprofit organization, is another source of employee benefits information. Contact the institute at

Employee Benefit Research Institute
2121 K St. NW., Suite 600
Washington, DC 20037
(202) 659-0670
www.ebri.org