



PROGRAM

VOL. 4, ISSUE 1

# PERSPECTIVES

April 2012

## ON LEGALLY REQUIRED BENEFIT COSTS

### How Much Do Private Industry Employers Pay for Legally Required Employee Benefits?

**E**mployer costs for worker compensation typically include wages plus benefit expenses. In general, benefits fall into two broad categories: voluntary benefits, such as paid leave and life insurance, and legally required benefits. Legally required benefits provide workers and their families with retirement income and medical care, mitigate economic hardship resulting from loss of work and disability, and cover liabilities resulting from workplace injuries and illnesses.

The legally required benefits covered in this issue of *Program Perspectives* are Social Security, Medicare, federal and state unemployment insurance, and workers' compensation. The focus here is on the employer's portion of the cost of these benefits. Employers are obligated to pay their part of the cost in the form of either a payroll tax or a compulsory insurance premium. In December 2011, the average cost to private industry employers for these benefits was \$2.33 per employee hour worked, or

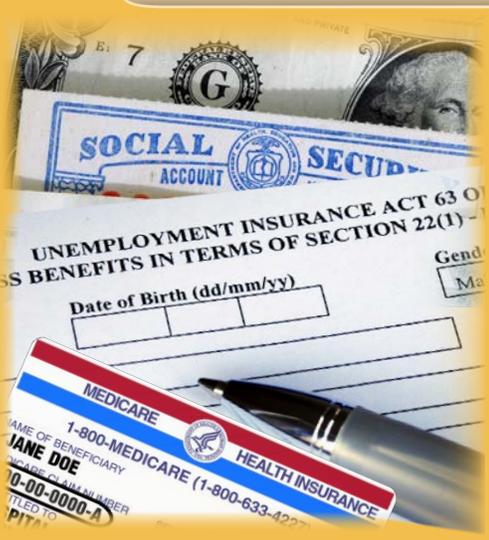
8.1 percent of total employee compensation. (See chart 1.)

Estimates of employer costs for legally required benefits presented in this issue are from the U.S. Bureau of Labor Statistics (BLS) "National Compensation Survey (NCS): Employer Costs for Employee Compensation – December 2011," available online at [http://www.bls.gov/news.release/archives/ecec\\_03142012.pdf](http://www.bls.gov/news.release/archives/ecec_03142012.pdf). NCS collects and publishes information on employer costs for workers' wages and benefits; all cost information is converted into a cost-per-hour based on the work schedule for a particular occupation.

#### Legally required benefits in detail

*Social Security*, also known as Old Age, Survivors, and Disability Insurance, provides income for retired workers, for dependents, and for disabled workers and their families. The Social Security Act of 1935 is the basis for this benefit. In March 2012, more than

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#### NATIONAL COMPENSATION SURVEY

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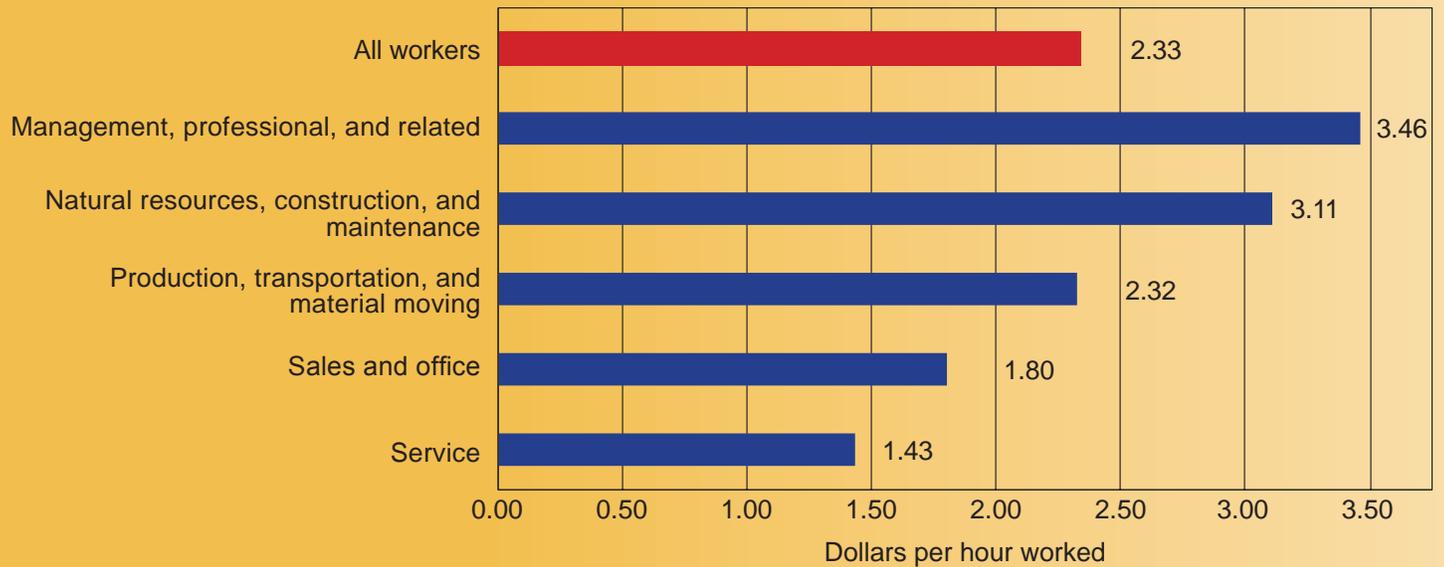
#### Benefit Series

This marks the last issue of *Program Perspectives*.

In May 2012, BLS will introduce a new publication that will consolidate five BLS publications. As a result, the content for *Program Perspectives* will appear in *Beyond the Numbers: Pay and Benefits*.

## CHART 1

### Employer cost for legally required benefits per employee hour worked, by selected occupational groups, private industry, December 2011



Source: U.S. Bureau of Labor Statistics.

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55 million Americans received an average monthly Social Security benefit of \$1,125. See “Monthly Statistical Snapshot,” in *Research, Statistics, and Policy Analysis* (Social Security Online, updated monthly), available online at [http://www.ssa.gov/policy/docs/quickfacts/stat\\_snapshot/](http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/).

Social Security is financed by a payroll tax on workers’ wages, with a portion of the tax paid by the worker and a portion paid by the employer. For 2012, the Social Security tax rate for employers is 6.2 percent of taxable earnings up to \$110,100 per employee. In 2012, employees pay 4.2 percent of taxable earnings toward Social Security, a temporary reduction from the usual 6.2 percent rate. In December 2011, the average employers’ cost for all private

industry workers for Social Security was \$1.34 per employee hour worked. (See table 1.)

*Medicare* is a benefit that pays medical care for retirees and persons with long-term disabilities. The basis for Medicare is a 1965 amendment to the Social Security Act. Medicare reimburses doctors, medical clinics, and hospitals for providing services to Medicare beneficiaries. Medicare is funded by both the employee and the employer through a payroll tax on covered earnings. In 2012, the Medicare tax rate paid by employees and employers alike is 1.45 percent of taxable earnings. In December 2011, the average cost for this benefit to all private industry employers was 33 cents per employee hour worked.

#### *Federal Unemployment Tax*

*Act* (FUTA) also known as federal unemployment insurance, along with state unemployment programs, provides benefits to workers who have lost their jobs. FUTA covers the federal share of the costs of administering unemployment insurance and job service programs in all states. In addition, FUTA pays one-half of the cost of extended unemployment benefits during periods of high unemployment.

FUTA funds held by the federal government are loaned to states, when necessary, to help pay unemployment benefits. FUTA is funded by an employer payroll tax: 6.0 percent on individual employee wages up to a maximum salary of \$7,000 a year. However, employers that pay state unemployment taxes on a timely basis typically are eligible to receive a credit of 5.4 percent,

providing an effective tax rate of 0.6 percent. In December 2011, the average cost for FUTA to private industry employers was 2 cents per employee hour worked.

*State Unemployment Insurance* (SUI) provides income payments to eligible workers who have been laid off from their jobs; benefits usually are paid weekly as a percentage of an unemployed worker's previous salary up to a weekly maximum amount. Unemployed workers can collect benefits until they find a new job or until benefits run out. SUI also funds training programs aimed at improving reemployment prospects.

SUI programs are mandated by the federal government and

administered by state governments within guidelines established by FUTA. Each state sets its own eligibility requirements, benefit amounts, and the length of time benefits are paid. In most states, SUI is funded by a state payroll tax that is paid solely by employers. An employer's cost for SUI is based on the employer's experience rating with unemployment. The cost also is based on the taxable wage base and tax rate set by each state. In December 2011, the average cost for SUI for private industry employers was 21 cents per employee hour worked.

*Workers' Compensation* (WC) pays medical expenses and provides for lost income resulting

from work-related injuries and illnesses; the payout depends on the nature and severity of the injury or illness. WC programs are administered by state governments and paid for by the employer. WC insurance coverage is available through state-approved insurance plans, private insurance carriers, self-insured coverage, or some combination of them. Self-insured employers or groups of employers must have funds set aside and certified as funds to be used only for WC claims. WC insurance rates that employers pay are higher for some jobs than for others because of the risk of injury or illness that comes with a particular job. In December 2011, the average cost for

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TABLE 1

**Employer cost for legally required benefits per employee hour worked and percent of total compensation, by selected occupational and industry groups, private industry, December 2011**

| Occupational and industry groups                 | Total compensation cost | Social Security |         | Medicare |         | Federal unemployment insurance |         | State unemployment insurance |         | Workers' compensation insurance |         |
|--|-------------------------|-----------------|---------|----------|---------|--------------------------------|---------|------------------------------|---------|---------------------------------|---------|
|  |                         | Cost            | Percent | Cost     | Percent | Cost                           | Percent | Cost                         | Percent | Cost                            | Percent |
| All workers                                      | \$28.57                 | \$1.34          | 4.7     | \$0.33   | 1.2     | \$0.02                         | 0.1     | \$0.21                       | 0.8     | \$0.41                          | 1.4     |
| Occupational group                               |                         |                 |         |          |         |                                |         |                              |         |                                 |         |
| Management, professional, and related            | 50.48                   | 2.29            | 4.5     | 0.60     | 1.2     | 0.02                           | —       | 0.22                         | 0.4     | 0.33                            | 0.7     |
| Natural resources, construction, and maintenance | 31.21                   | 1.46            | 4.7     | 0.34     | 1.1     | 0.02                           | 0.1     | 0.27                         | 0.9     | 1.02                            | 3.3     |
| Production, transportation, and material moving  | 23.89                   | 1.10            | 4.6     | 0.26     | 1.1     | 0.02                           | 0.1     | 0.25                         | 1.0     | 0.69                            | 2.9     |
| Sales and office                                 | 22.39                   | 1.08            | 4.8     | 0.26     | 1.2     | 0.03                           | 0.1     | 0.20                         | 0.9     | 0.24                            | 1.1     |
| Service  | 14.01                   | 0.74            | 5.3     | 0.17     | 1.2     | 0.03                           | 0.2     | 0.18                         | 1.3     | 0.31                            | 2.2     |
| Industry group                                   |                         |                 |         |          |         |                                |         |                              |         |                                 |         |
| Construction                                     | 33.08                   | 1.53            | 4.6     | 0.37     | 1.1     | 0.02                           | 0.1     | 0.35                         | 1.1     | 1.16                            | 3.5     |
| Manufacturing                                    | 32.93                   | 1.49            | 4.5     | 0.36     | 1.1     | 0.02                           | 0.1     | 0.27                         | 0.8     | 0.53                            | 1.6     |
| Trade, transportation, and utilities             | 23.88                   | 1.13            | 4.7     | 0.27     | 1.1     | 0.03                           | 0.1     | 0.20                         | 0.8     | 0.48                            | 2.0     |
| Education and health services                    | 30.53                   | 1.45            | 4.8     | 0.36     | 1.2     | 0.02                           | 0.1     | 0.17                         | 0.5     | 0.35                            | 1.1     |
| Leisure and hospitality                          | 12.14                   | 0.68            | 5.6     | 0.16     | 1.3     | 0.03                           | 0.3     | 0.17                         | 1.4     | 0.24                            | 2.0     |
| Financial activities                             | 39.70                   | 1.74            | 4.4     | 0.46     | 1.2     | 0.02                           | 0.1     | 0.21                         | 0.5     | 0.20                            | 0.5     |

Note: Dash indicates the employer cost as percent of total compensation is less than .05 percent.

Source: U.S. Bureau of Labor Statistics.

## GLOSSARY

**Legally required benefits.** A grouping of benefits that employers typically are expected to participate in and contribute toward. The grouping includes Social Security, Medicare, federal and state unemployment insurance, and workers' compensation. These benefits are affected by federal and state laws.

**Payroll tax.** A tax an employer or employee pays based on the wage or salary of the employee. Both federal and state governments collect payroll taxes.

**Taxable earnings.** The amount of annual income, up to a maximum amount, on which a tax is payable; sometimes is called base earnings or covered earnings.

**Experience rating.** A rating system under which employers are assigned state unemployment insurance tax rates in accordance with their individual experience with unemployment or with other factors, such as seasonal layoffs, that bear a direct relation to unemployment risk. Generally, the higher an employer's experience rating, the higher the employer's tax.

**Self-insured coverage.** The practice by an employer of insuring workers' compensation liabilities by setting aside reserve funds that can be used only for workers' compensation claims, rather than by purchasing an insurance policy.

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WC for private industry employers was 41 cents per employee hour worked.

### Employer costs by occupational and industry group

Employer costs for legally required benefits vary by benefit and by occupational and industry group, and are highest for Social Security both per hour worked and as a percentage of total compensation. (See table 1.) The primary factor determining costs for some legally required benefits, including Social Security and Medicare, is the wage rate that an employer pays an employee for a particular job. Tax rates and insurance premiums generally are based on salary. Salaries for natural resources, construction, and maintenance jobs, for example, usually are higher than are salaries for service jobs. In December 2011, the employer cost for Social Security was \$1.46 per employee hour worked for natural resources, construction, and maintenance jobs and 74 cents per employee

hour worked for service jobs.

Costs also vary because some jobs are more prone to layoffs than others. For example, the relatively high SUI cost for construction industry jobs (35 cents per employee hour worked), compared with financial activities jobs (21 cents per employee hour worked) is due to such factors as laid-off construction workers collecting unemployment benefits during the winter; thus, employers that employ construction workers may incur higher unemployment tax rates.

Employer costs for workers' compensation vary because some occupations are more exposed than others to risk of injury, to medical liability, and to lost time due to accidents. These jobs incur higher workers' compensation insurance premium rates—construction industry jobs, for example, compared with jobs in leisure and hospitality. In December 2011, workers' compensation costs were \$1.16 per employee hour worked for occupations in construction, significantly higher than the 24 cents for occupations in leisure and hospitality. ●

The upcoming topic will be featured in *Beyond the Numbers: "Health Benefits in State and Local Government"*

For additional assistance on benefits, contact one of our information offices:

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