SNAPSHOT

Employer Health Insurance Costs in the United States

July 2007
Introduction

Most Americans obtain health insurance coverage through employer-sponsored plans. Recent proposals at the state level, including several in California, seek to expand access to employer-based insurance. However, employers view rising health care costs as a challenge to their ability to compete in an increasingly global economy. This snapshot provides an overview of trends in employer health insurance costs in the United States. Much of the emphasis is placed on premium contributions as a share of payroll because it is a central focus in the debate over the role of employers in health care reform. Key findings include:

- While wages and salaries increased by 39 percent between 1996 and 2005, health insurance costs to employers rose 97 percent.

- At offering businesses, the share of total compensation paid as health insurance rose from 6 to 8 percent from 1996 to 2005. As health insurance costs increased, the share of compensation paid as wages fell.

- Of those businesses that offered insurance, costs relative to payroll increased 34 percent between 1996 and 2005.

- Premium contributions as a share of payroll were highest for unionized businesses, businesses with a high share of full-time workers, and low-wage businesses.

- Although the increase in health insurance costs was similar across businesses, increases were highest for low-wage businesses. This may be due in part to the fact that compensation for high-wage businesses has increased substantially, while for low-wage businesses it has been stagnant.
Premium Contributions per Worker, All Businesses, 1995–2005

Employer premium contributions almost doubled between 1996 and 2005, increasing from $1,007 per worker to $1,979.

Note: The statistics reported here also include businesses that do not offer health insurance, and thus do not incur any health insurance costs.
Employer Compensation, Growth Rate, by Category, 1995–2005

Compensation in the form of health insurance increased by 97 percent between 1996 and 2005, compared to a 39 percent increase in wages and salaries.

Note: The statistics reported here also include businesses that do not offer health insurance, and thus do not incur any health insurance costs. “Other Benefits” includes pensions, life and disability insurance, Workers Compensation, and Social Security.

Employer Compensation, by Category, All Businesses, 1996 vs. 2005

In 2005, businesses paid 4.4 percent of compensation in the form of health insurance benefits, a 42 percent increase from 1996. Simultaneously, the share of compensation paid as wages and salaries declined, and the share of compensation paid as other benefits, such as pensions and life insurance, remained stable.

Note: The statistics reported here also include businesses that do not offer health insurance, and thus do not incur any health insurance costs. “Other Benefits” includes pensions, life and disability insurance, Workers Compensation, and Social Security.

Employers Offering Health Insurance, 1995–2005

Over the ten year period shown, the proportion of employers offering health benefits has ranged between 50 and 60 percent.

For businesses that offered health insurance, costs increased by approximately $1,700 per worker, or 85 percent, between 1996 and 2005. The percentage increase was slightly lower for offering businesses than for all businesses because part of the cost increase for all businesses came from a slight increase in the share of employers that offered insurance.

For the roughly 56 percent of businesses that offered health insurance, premium contributions accounted for 8.2 percent of total compensation in 2005, up from 6.1 percent in 1996. As the percentage of compensation paid as health insurance increased, the share of compensation paid as wages and salaries fell.

Premium Contributions as a Share of Payroll, Offering Businesses

Average employer premium contributions relative to payroll rose by 34 percent between 2000 and 2005.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to "wages and salaries" noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, Distribution Over Time

Employer Insurance Costs as a Share of Payroll

Health insurance premium contributions relative to payroll were stable between 1996 and 2000, but rose sharply between 2000 and 2005. Businesses in the 25th percentile saw the greatest proportional increase at 47 percent from 2000 to 2005.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Share of Offering Businesses with Premium Contributions Over 20 Percent of Payroll

The proportion of businesses with premium contributions in excess of 20 percent of payroll almost tripled between 1996 and 2006, with most of this increase occurring after 2000.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Health Spending and Payroll per Employee, Offering Businesses, by Worker Wage, 1996 vs. 2005

Notes: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions. Highest wage quartiles for 1996 and 2005 were $12.59/hr and $18.31/hr, respectively. Lowest wage quartiles for 1996 and 2005 were $6.60/hr and $8.99/hr. Figures are reported in nominal dollars and are adjusted for inflation.

Premium Contributions as a Share of Payroll, Offering Businesses, by Worker Wage, Selected Years

Offering businesses with wages in the bottom quartile had a 55 percent increase in average health insurance premium contributions relative to payroll between 1996 and 2005. By 2005, both low- and high-wage businesses spent approximately 10 percent of payroll on health insurance premiums.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to "wages and salaries" noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions. Highest wage quartiles for 1996 and 2005 were $12.59/hr and $18.31/hr, respectively. Lowest wage quartiles for 1996 and 2005 were $6.60/hr and $8.99/hr. Figures are reported in nominal dollars and are adjusted for inflation.

Premium Contributions as a Share of Payroll, Offering Businesses, Distribution by Worker Wage, 1996 vs. 2005

Employer premium contributions as a share of payroll rose substantially for low-wage businesses across the distribution. For example, contributions as a share of payroll for low-wage businesses at the 75th percentile of spending almost doubled between 1996 and 2005, compared to a 23 percent increase for high-wage businesses.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions. Highest wage quartiles for 1996 and 2005 were $12.59/hr and $18.31/hr, respectively. Lowest wage quartiles for 1996 and 2005 were $6.60/hr and $8.99/hr. Figures are reported in nominal dollars and are adjusted for inflation.

Share of Offering Businesses with Premium Contributions Over 20 Percent of Payroll, by Worker Wage

In 2005, almost 13 percent of low-wage businesses had premium contributions in excess of 20 percent of payroll, compared to almost 7 percent of high-wage businesses.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions. Highest wage quartiles for 1996 and 2005 were $12.59/hr and $18.31/hr, respectively. Lowest wage quartiles for 1996 and 2005 were $6.60/hr and $8.99/hr. Figures are reported in nominal dollars and are adjusted for inflation.

Premium Contributions as a Share of Payroll, Offering Businesses, by Size, 1996 vs. 2005

All offering businesses, regardless of size, experienced growth in average health insurance premium contributions relative to payroll between 1996 and 2005. Contributions grew from approximately 8 to 11 percent of payroll for small and large business and 7 to 9 percent of payroll for mid-sized businesses.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, Distribution by Size, 1996 vs. 2005

Employer premium contributions relative to payroll increased at all points in the distribution, regardless of business size. Mid-sized businesses had slightly lower contributions as a share of payroll at the 25th, median, and 75th percentiles, both in 1996 and in 2005.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to "wages and salaries" noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, by Industry, 1996 vs. 2005

Although average employer premium contributions relative to payroll ranged from approximately 10 to 11 percent regardless of industry in 2005, rates of growth differed across industry. The trade, transportation, and utility sector had the largest increase—moving from 7.8 to 11.2 percent of payroll—while the manufacturing sector had the smallest increase.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

In 2005, the median premium contribution relative to payroll was lower in the construction and mining sector than in other industries, but 25 percent of these businesses had health insurance contributions in excess of 15 percent of payroll.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, by Union Status, Selected Years

Although the average premium contributions relative to payroll increased across all offering businesses between 1996 and 2005, businesses with a union presence had higher relative contributions than businesses without a union presence.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, Distribution by Union Status, 1996 vs. 2005

Premium contributions relative to payroll for both unionized and non-unionized businesses increased across the distribution. In 2005, 25 percent of unionized businesses had health insurance costs in excess of 18.7 percent of payroll.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, by Share of Full-Time Workers, Selected Years

Offering businesses with a high share of full-time workers had higher average premium contributions relative to payroll than businesses with a lower share of full-time workers. This may reflect the fact that businesses with a larger proportion of full-time workers provided health insurance benefits to a larger share of the workforce.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Premium Contributions as a Share of Payroll, Offering Businesses, Distribution by Share of Full-Time Workers, 1996 vs. 2005

Employer premium contributions relative to payroll rose across the distribution, regardless of the share of full-time workers.

Note: Payroll includes all employee wage and salary compensation, including regular wages, vacation pay, pay for other leave, and overtime, and is equivalent to “wages and salaries” noted in previous graphs. Payroll does not include health insurance compensation or other benefits, such as pensions.

Methodology

This analysis is based on data from the Employment Cost Index, a quarterly survey of establishments conducted by the U.S. Bureau of Labor Statistics. The figures presented are unadjusted for changes in the composition of businesses that occurred between 1996 and 2005. In unreported analyses, it was confirmed that trends are similar after statistically adjusting for business characteristics.

Throughout this analysis both average costs and costs at the median and extremes of the distribution were considered. Evaluating the distribution of costs is important because averages can be heavily influenced by a small number of observations with very high or very low costs.

Authors

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