

### III. SUPPLEMENTS TO WAGES AND SALARIES

Supplements to wages and salaries consist of employer contributions for employee pension and insurance funds (previously called other labor income) and employer contributions for government social insurance. Supplements accounted for 19 percent of compensation at the national level in 2007 (table D). In the new presentation of state personal income, employer contributions for government social insurance is included as a component of supplements to wages and salaries, compensation, and earnings by place of work. 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 by place of residence. This change provides the user with a more comprehensive measure of 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 (1) private employee pension and welfare funds, (2) privately administered workers' compensation plans, (3) government employee health and life insurance plans, and (4) government employee retirement plans.<sup>1</sup> Employer contributions for employee pension and insurance funds accounted for approximately 13 percent of compensation at the national level in 2007 (table D).

#### **Private employee pension and welfare funds**

Contributions by employers to privately administered pension and welfare funds, which consist of their (1) payments to pension and profit-sharing funds, (2) premiums for group health insurance, (3) premiums for life insurance, and (4) payments to supplemental unemployment benefit funds, accounted for 7.8 percent of compensation in 2007 (table D). Employee contributions to the funds, capital gains of the funds, and payments of benefits by the funds are not counted in personal income. The property income of the pension and life insurance funds is counted as part of personal dividends, interest and rent.

**National estimates.**—The national estimates of employer payments to **private pension and profit-sharing funds** are based mainly on data tabulated from Internal Revenue Service Form 5500 (*Annual Return/Report of Employee Benefit Plan*) and are

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<sup>1</sup> Employer contributions for employee pension and insurance funds excludes employer contributions 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 payments 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.

prepared at the North American Industrial Classification (NAICS) three-digit industry level.<sup>2</sup>

The national all-industry estimates of premiums for **group health insurance** for years after 1996 are based mainly on data collected by the Medical Expenditure Panel Survey (MEPS). This survey covers both health insurance purchased by employers for their employees and health insurance provided by employers on a self-insured basis. Self insurance by employers accounts for about half of all health insurance provided to employees.<sup>3</sup> The estimates for 1986-1996 are based mainly on extrapolations of the 1996-2001 MEPS data by the relative change in 1986-1996 data on employers' health insurance costs from the Employer Costs of Employee Compensation (ECEC) report of the Bureau of Labor Statistics (BLS). The estimates are disaggregated to the SIC three-digit industry level based on data from the ECEC and on the distribution of wage and salary accruals. The estimates prior to 1986 are based mainly on total private expenditures on health insurance (including the cost of self-administered plans) from the 1986 National Health Account of the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration. Premiums paid by employees are subtracted using consumer expenditures for health insurance (excluding Medicare premiums) from the BLS Consumer Expenditure Survey.

The national estimates of premiums paid by employers for **group life insurance** are based mainly on data provided by the American Council on Life Insurance (ACLI), and the national estimates of **payments to supplemental unemployment benefit funds** are based mainly on data from labor union and industry sources and from BLS. The estimates by NAICS sector are also based on the ACLI, BLS, union and industry sources. These estimates are allocated to the NAICS three-digit industries based on the distribution of wage and salary accruals.

**State estimates.**—State estimates of payments to these private benefit funds are prepared for each private industry. Because state data are not available from the sources used to prepare the national estimates, the payments amount for each industry is typically allocated to the states in proportion to state estimates of wages and salary disbursements for the industry.<sup>4</sup> However, the large payments made by two motor vehicle manufacturing firms to their under funded pension funds in 1992-95, were allocated to states in proportion to each firm's employment in motor vehicle manufacturing.

### **Privately administered workers' compensation plans**

Contributions by employers to privately administered workers' compensation funds consist of (1) net premiums paid by employers to private insurance companies for workers' compensation insurance, (2) benefit payments by self-insured employers, and

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<sup>2</sup> See the section "Changes in Methodology" in "Improved Estimates of the National Income and Product Accounts for 1959-95: Results of the Comprehensive Revision," *Survey* 75 (January/February 1996): 22-27.

<sup>3</sup> See the section "Changes in Methodology" in "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1997-99, and Quarterly Estimates, 1997:I-2000:I," *Survey* 80 (August 2000): 27-29.

<sup>4</sup> Because wage and salary disbursements by industry are used to allocate the national estimates to states, the state estimates reflect the various mixes of industries among the states and the wide variation in contribution rates relative to wages among industries, but not the variation in contribution rates among states for a given industry.

(3) court-awarded payments by the railroad industry and the water transportation industry for work-related injuries.<sup>5</sup> Employer contributions to these funds accounted for about .7 percent of compensation in 2007 (table D).

**National estimates.**—The national estimate for net premiums paid by employers to private insurance companies is based on data compiled annually by A.M. Best Company, Inc., supplemented by data from the National Council on Compensation Insurance (NCCI), the National Association of Insurance Commissioners (NAIC), and the American Association of State Compensation Insurance Funds (AASCIF).<sup>6</sup> The estimate of employers' costs for self-insurance is based on state-level data compiled by the Social Security Administration (SSA) and by the National Academy of Social Insurance (NASI).<sup>7</sup> The allocation of national estimates to NAICS three-digit industries is based on BEA estimates of employment by industry and on BLS data on occupational injury incidence rates. The national estimates of court-awarded payments are based on data provided by the Federal Railroad Administration and the Maritime Administration of the Department of Transportation.

**State estimates.**—The state estimates are prepared in three parts: For railroad transportation, for water transportation, and for all other industries. State data for the court-awarded payments by the railroad and water transportation industries are unavailable. For the railroad industry, the national estimate of these payments is allocated to states in proportion to the number of workers killed or injured in railroad accidents, as reported in the *Annual Accident/Incident Bulletin* by the Federal Railroad Administration. For the water transportation industry, the national estimate of court-awarded payments is allocated to states in proportion to estimates of wages and salaries for this industry.

The state estimates of premiums and benefits paid by employers in the other industries are prepared by dual allocation.<sup>8</sup> In this three-step procedure, the national estimates for each industry are allocated to states in proportion to state estimates of wages and salaries for the industry.<sup>9</sup> Second, for each state the sum of two data series: (1) Earned premium data collected from the NAIC and (2) data on benefits paid by self-insured employers from the NASI is allocated in proportion to the output of the first step.

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<sup>5</sup> Programs for workers' compensation insurance are authorized by law in all states and in the District of Columbia. All but five states authorize programs for private workers' compensation insurance. Federal laws authorize court-awarded payments by the railroad industry and the water transportation industry. Laws in many states authorize self-insurance. Workers' compensation insurance provided by government-operated funds is classified as social insurance, and the premiums paid to these funds are classified as employer contributions for government social insurance. Benefits paid by government operated funds are classified as transfer payments to persons, and are therefore part of personal income. Benefits paid by privately operated funds, however, are accounted for in personal consumption expenditure.

<sup>6</sup> Some state-chartered workers' compensation insurance funds have mixed public and private characteristics and are not included in the A.M. Best data for private insurance carriers or in the Census Bureau data for social insurance funds. BEA treats these funds as private and obtains data for them from the other sources.

<sup>7</sup> The SSA series of employer costs for self-insurance was discontinued after 1995 and succeeded by the NASI series.

<sup>8</sup> See "Dual allocation" in Chapter XII Technical Notes.

<sup>9</sup> For West Virginia, the state estimate is allocated to industries in proportion to data provided by the West Virginia Workers Compensation Commission.

Third, the national estimates for each industry are allocated to states in proportion to the output of the second step.

### **Government employee health and life insurance plans**

Government employee health and life insurance plans are treated similarly to private health and life insurance funds in the National Income and Product Accounts (NIPA). For the measurement of personal income, employer contributions to the plans are counted as part of employer contributions for employee pension and insurance funds. Employer contributions to these funds accounted for about 1.7 percent of compensation in 2007 (table D). Employee contributions to the funds and the payment of benefits by these funds are not recorded in personal income.

**Federal, state, and local government employees.**—National estimates of payments for government employees for group health insurance for 1997 are based mainly on data collected by the Medical Expenditure Panel Survey.<sup>10</sup> Estimates for 1991-1996 and for 1998-forward are based mainly on extrapolations of 1997 MEPS data by the relative change in 1991-1996 and 1998-forward data on employers' health insurance costs from the Employer Costs of Employee Compensation (ECEC) report of the Bureau of Labor Statistics (BLS). Estimates prior to 1991 are based mainly on total private expenditures on health insurance (including the cost of self-administered plans) from the 1991 National Health Account of the Health Care Financing Administration. Premiums paid by employees are subtracted using consumer expenditures for health insurance (excluding Medicare premiums) from the BLS Consumer Expenditure Survey. National estimates of premiums paid by employers for group life insurance are based mainly on data provided by the American Council on Life Insurance (ACLI).

National estimates of Federal, state, and local government payments to government employee group health and life insurance funds are allocated to states in proportion to BEA estimates of wage and salary employment for each level of government. 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 pension plans in the NIPA.<sup>11</sup> For the measurement of personal income, employer contributions to retirement funds are counted as part of employer contributions for employee pension and insurance funds, and the property income of the funds is counted as part of personal dividend income or personal interest income. Employee contributions to the funds, capital gains of the funds, and fund payments of benefits to retired persons and survivors are not counted in personal income. Employer contributions to these funds accounted for about 2.3 percent of compensation in 2007.

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<sup>10</sup> See the section "Changes in Methodology" in "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1997-99, and Quarterly Estimates, 1997:I-2000:I," *Survey* 80 (August 2000): 27-29.

<sup>11</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.

**Federal civilian employees.**—Government employee retirement plans for Federal civilian employees consist of the Civil Service Retirement System (CSRS), which covers only employees hired before 1984; the Basic Benefit Plan of the Federal Employees Retirement System (FERS), which covers mainly employees hired after 1983; the Thrift Savings Plan (TSP); and several plans that cover specific groups of employees, such as the plan for Foreign Service Officers. Employees covered by FERS are also covered—but those covered by CSRS are not covered—by Old-age, Survivors, and Disability Insurance (social security). Employees covered by both CSRS and FERS are eligible to participate in TSP, but employer contributions to TSP are made only on behalf of employees covered by FERS. Employee contributions are required to both the CSRS and the Basic Benefit Plan of FERS; employee contributions to the TSP are optional. The national estimate of employer contributions to all of the retirement funds for Federal civilian employees is based mainly on data from the *Monthly Treasury Statement* and is allocated to states in proportion to Federal civilian wages and salaries.

**Military personnel.**—Military personnel are covered both by social security and by the military retirement system.<sup>12</sup> Retirement benefits under the latter require a minimum of 20 years of service, but the benefits begin immediately upon retirement, regardless of age. No employee contribution is required. The national estimate of employer contributions for military retirement is based mainly on data from the *Monthly Treasury Statement* and is allocated to states in proportion to military wages and salaries.

**State and local government employees.**—Government employee retirement funds for state and local government employees consist of funds operated by state and local governments and by private carriers. The pension funds 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 funds may or may not be required.

National and state estimates of employer contributions to government-operated funds are based on data from the Census Bureau's annual *State & Local Government Employee-Retirement Systems*. State estimates of contributions for state government employees are based on the total contributions received by the state-operated funds less the contributions made for local government employees to those funds. State estimates of contributions for local government employees are based on the total contributions received by the funds operated by local governments plus the contributions made for local government employees to state-operated funds.

The national and state-level estimates of government employer contributions to pension funds operated by private carriers are based on data from the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF).

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

Employer contributions for government social insurance consists of employer payments under the following government social insurance programs: (1) Old-age, Survivors', and Disability Insurance (OASDI) and Hospital Insurance (HI); (2)

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<sup>12</sup> Beginning in 2002 contributions to the military retirement system include contributions to the Uniformed Services Retiree Health Care Fund.

unemployment insurance; (3) railroad retirement; (4) pension benefit guaranty; (5) military medical insurance; (5) veterans' life insurance; (6) Federal workers' compensation; (7) state-administered workers' compensation; and (8) state-administered temporary disability insurance. These contributions accounted for 6 percent of compensation at the national level in 2007 (table D). The estimates of employer contributions for government social insurance are developed for each program by industry.

### **Contributions for OASDI and HI**

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 in 2007. 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.

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

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

State estimates of contributions to OASDI and HI by state and local government employers are based on data reported in the 1987 Census of Government. The 1987 state estimates are extrapolated forward by estimates of state and local government wage and salary disbursements that have been adjusted to reflect coverage rates under OASDI for state and local government employees in each state. These coverage rates were provided by the Social Security Administration.

### **Contributions for 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 .5 percent of compensation (table D).

**State unemployment insurance and Federal unemployment tax funds.**—State unemployment insurance taxes and 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.

National estimates of state unemployment insurance taxes on employers and Federal unemployment taxes are based on data from the Employment and Training Administration. State estimates are based on employer contributions data by state and industry from the Unemployment Insurance Contributions Report, which is provided by the Bureau of Labor Statistics of the Department of Labor.

**Railroad employees' unemployment insurance.**—The Railroad Unemployment Insurance Act of 1938, established a system of benefits for unemployed railroad workers that is 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* and are allocated to states using estimates of railroad wage and salary disbursements.

**Federal employees' unemployment insurance.**—The Unemployment Compensation for Federal Employees (UCFE) program and the Unemployment Compensation for Ex-Service members (UCX) program provide unemployment compensation to former Federal civilian employees and to unemployed, newly discharged servicemen. Estimates of employer contributions for these two programs are imputations based on unemployment compensation paid to 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. State estimates are based on wage and salary disbursements for Federal civilian workers and for active duty military personnel.

### **Contributions for railroad retirement**

Railroad retirement is treated in the NIPAs 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.

National estimates of employer contributions for this federally-administered program are based on taxable wages and tax rate data from the RRB. State estimates are prepared in proportion to estimates of railroad wage and salary disbursements.

### **Contributions for the Pension Benefit Guaranty Corporation**

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. National estimates of employer contributions to PBGC are based on data from the budget of the United States. State estimates are prepared separately for each industry and are based on estimates of wage and salary employment.

### **Contributions for military medical insurance**

Military medical insurance (TRICARE) is a health care program that covers health care at nonmilitary facilities for active duty and retired members of the uniformed services, their families, and their 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. National estimates of employer contributions for military medical insurance are based on data from the Department of Defense. State estimates are based on BEA estimates of military wage and salary disbursements.

### **Contributions for veterans' life insurance**

Contributions for veterans' life insurance are 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. State estimates are based on BEA estimates of military wage and salary disbursements.

### **Contributions for Federal workers' compensation**

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. National estimates of employer contributions for Federal workers' compensation are based on data from the Employment Standards Administration of the Department of Labor. State estimates are based on BEA estimates of Federal civilian and military wage and salary disbursements.

### **Contributions for state-administered workers' compensation**

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. National estimates of employer contributions for state-administered workers' compensation are based on government finance data provided by the Census Bureau. State estimates of these contributions are based on data from the Census Bureau's annual *State Government Finances*.

### **Contributions for state-administered temporary disability insurance**

State-administered temporary disability insurance programs provide workers with partial compensation for loss of wages caused by temporary non-occupational disability. Five states have implemented temporary disability insurance programs: California, Hawaii, New Jersey, New York, and Rhode Island. Of these five states, only New Jersey has a program that requires employers to contribute.<sup>13</sup> Therefore, the national estimate

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<sup>13</sup> Three states require employee contributions. These are recorded under employee and self-employed contributions for government social insurance (chapter VII).

equals the estimate for the state of New Jersey and is based on government finance data provided by the Census Bureau. This estimate is distributed to industries by BEA estimates of New Jersey wage and salary disbursements.