

IV. SUPPLEMENTS TO WAGES AND SALARIES

Supplements to wages and salaries consists of employer contributions for employee pensions and insurance funds (previously called other labor income) and employer contributions for government social insurance. Supplements accounted for almost 12 percent of personal income at the national level in 2003 (table C). 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 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 presentation of the 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) privately administered pension and welfare funds, (2) privately administered workers' compensation plans, (3) government employee health and life insurance plans, and (4) government employee retirement plans.¹ Employer contributions for employee pension and insurance funds accounted for approximately 8.75 percent of personal income at the national level in 2003 (table C).

Privately administered pension and welfare funds

Contributions by employers to privately administered pension and welfare funds, which consist of their payments to (1) 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 about 63.77 percent of employer contributions for employee pension and insurance funds in 2003 (table C). The investment income of private pension funds, is included in other components of personal income. However, the capital gains of and benefits paid by these funds are not counted as part of personal income.

National estimates.—The national estimates of employer payments to **private pension and profit-sharing funds** are based mainly on data tabulated from Internal

¹ 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.

Revenue Service form 5500 (Annual Return/Report of Pension Plans) and are prepared at the North American Industrial Classification (NAICS) three-digit industry level.²

The national all-industry estimates of the payments for **group health insurance** for years after 1996 are based mainly on data collected by the Medical Expenditure Panel Survey (MEPS).³ 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 the 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.—The state estimates of the 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 allocated to the states in proportion to the state estimates of wages and salary disbursements for the industry.⁴ 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 in proportion to the firms' employment in motor vehicle manufacturing plants.

Privately administered workers' compensation funds

The 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 (3) court-awarded payments by the railroad industry and the water transportation industry

² 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.

³ 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.

⁴ 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.

for work-related injuries.⁵ The employer contributions to these funds accounted for about 7.77 percent of employer contributions for employee pension and insurance funds in 2003 (table C).

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).⁶ 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).⁷ The allocation of the national estimates to the 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 the payments made under court awards 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 the court-awarded payments is allocated to states in proportion to the estimates of wages and salaries for this industry.

The state estimates of the premiums and benefits paid by employers in the other industries are prepared with a dual allocation.⁸ In this three-step procedure, first, the national estimates for each industry is allocated to each state in proportion to state estimates of wages and salaries for each industry.⁹ 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

⁵ 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 the 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 employers' contributions for social insurance, a component of compensation, but deducted in the calculation of personal income. The benefits paid by these funds are classified as transfer payments to persons, and are therefore part of personal income.

⁶ 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.

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

⁸ See "Dual allocation" in Section XII.

⁹ For West Virginia, the state estimate is allocated to industries in proportion to data from the *Annual Report* of the West Virginia Workers' Compensation Fund.

the first step. 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 funds

Government employee health and life insurance funds are treated similarly to private health and life insurance funds in the national income and product accounts. For the measurement of personal income, employer contributions to the plans are counted as part of employer contributions for employee pension and insurance funds. The employer contributions to these funds accounted for about 12 percent of employer contributions for employee pension and insurance funds in 2003 (table C). The employee contributions to the funds and the payment of benefits by these funds are not reflected in personal income.

Federal, state, and local government employees.—The national estimates of the payments for government employees for group health insurance for 1997 are based mainly on data collected by the Medical Expenditure Panel Survey.¹⁰ The 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). The estimates prior to 1991 are based mainly on the 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. 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).

The 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 estimates of wage and salary employment for each level of government.

Government employee retirement funds

Government employee retirement plans are treated similarly to private pension plans in the National Income and Product Accounts.¹¹ For the measurement of personal income, employer contributions to the funds are counted as part of employer contributions for employee pension and insurance funds, and the investment income of the funds is counted as part of personal dividend income or personal interest income. The employer contributions to these funds accounted for about 16.31 percent of employer contributions for employee pension and insurance funds in 2003. The 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.

¹⁰ 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.

¹¹ 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.—The 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 specified groups of employees, such as the plan for the Foreign Service. 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 the TSP, but employer contributions to the 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.¹² 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.—The government employee retirement funds for state and local government employees consist of both 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 contributions to annuity funds made on behalf of selected groups of employees—primarily teachers. Some local government employees are covered by plans operated by state governments. Employee contributions to the state and local government funds may or may not be required.

The national and the state-level estimates for government operated funds are based on data from the Census Bureau's annual *Finances of Employee-Retirement Systems of State and Local Governments*. The state estimates of the 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. The state estimates of the 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 the state-operated funds.

The national and the state-level estimates for 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,

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

survivors', and disability insurance (OASDI) and hospital insurance (HI); (2) 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 4.11 percent of personal income at the national level in 2003 (table C). The estimates of employer contributions for government social insurance are developed for each program by industry. The total for all of the programs is included in contributions for government social insurance.

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 86 percent of total employer contributions for government social insurance. 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 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. The national estimates of the contributions are based on data from the Social Security Administration.

State estimates of the 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. The state estimates of the contributions by Federal civilian employers are prepared in proportion to the state estimates of wage and salary disbursements for Federal civilian employees. The state estimates of the contributions by the military are prepared in proportion to the state estimates of military wage and salary disbursements excluding pay-in-kind.

State estimates of the contributions to OASDI and HI by state and local government employers are based on employer contributions to social security program as reported in the 1987 Census of Government. The 1987 state estimates were extrapolated forward by the 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 particular state. These coverage rates were provided by the Social Security Administration.

Contributions for unemployment insurance

Employer contributions to unemployment insurance funds consist of employer contributions to the following four funds: state unemployment insurance (UI); Federal unemployment tax; railroad employees unemployment insurance; and Federal employees unemployment insurance.

State unemployment insurance and Federal unemployment tax funds.—State unemployment insurance and the Federal unemployment tax funds 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 employer contributions to the state unemployment insurance and federal unemployment tax funds 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 UI 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 was financed by railroad employers and administered by the Railroad Retirement Board (RRB). The national estimates of the 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 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 benefits to former Federal civilian employees and to unemployed, newly discharged servicemen. The estimates of the employer contributions of these two programs are the equivalent of the unemployment benefits for former Federal employees.

The employer contributions for the UCFE and UCX programs are estimated separately. The national estimates are based on data from both the Office of Management and Budget and the Employment and Training Administration. The 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.

The national estimates of the 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 estimates of 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. The national estimates of employer contributions to PBGC are based on data from the budget of the United States. The state estimates are prepared separately for each industry and are based on estimates of wage and salary disbursements.

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 survivors. The 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. The state estimates are based on BEA estimates of military wage and salary disbursements.

Contributions for veterans life insurance

These contributions are the premiums that are paid by the Federal government for life insurance under the 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. The 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 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 BEA estimates of Federal civilian and military wages and salaries.

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 NIPAs as social insurance funds. The 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 a temporary disability insurance program in place: 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. The national estimates of employer contributions for temporary disability insurance are based on government finance data provided by the

Census Bureau. The estimates are distributed to industries by BEA estimates of New Jersey wage and salary disbursements.

Table C.--Relative Importance to Personal Income of Supplements to Wages and Salaries,
by Component, United States, 2003

| | Millions of dollars | Percent of personal income |
|--|---------------------------|----------------------------------|
| Personal Income.. | 9,148,680 | 100.00 |
| Supplements to wages and salaries | 1,176,334 | 12.86 |
| Employer contributions for employee pension and insurance funds | 800,646 | 8.75 |
| Private | 580,602 | 6.35 |
| Employer contributions to private pensions and health and welfare funds | 535,500 | 5.85 |
| Workers' compensation (private) | 45,102 | 0.49 |
| Government | 220,044 | 2.41 |
| Employer contributions to government employee retirement plans | 116,547 | 1.27 |
| Federal, civilian | 40,515 | 0.44 |
| Military | 34,336 | 0.38 |
| State and local | 41,696 | 0.46 |
| Employer contributions to government employee health and welfare funds | 95,712 | 1.05 |
| Workers' compensation (government) | 7,785 | 0.09 |
| Employer contributions for government social insurance | 375,688 | 4.11 |
| Old age, survivors, and disability insurance, and hospital insurance | 323,619 | 3.54 |
| Unemployment programs (state UI, Federal unemployment tax, RR UI, Federal UI) | 33,694 | 0.37 |
| Railroad retirement | 2,507 | 0.03 |
| Pension Benefit Guaranty | 948 | 0.01 |
| Workers' compensation (private) | 8,167 | 0.09 |
| Temporary disability | 30 | 0.00 |
| Federal employee programs (veterans' life insurance, fed. civilian workers' compensation, military medical) | 6,723 | 0.07 |

NOTE.-- Detail may not add to totals due to rounding.