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Study: Employers' Cost to Provide Employee Benefits Has Risen 24% Since 2001

U.S. employers' cost to provide employee benefits, measured as a percentage of pay, increased 24% between 2001 and 2015, fueled largely by a doubling in healthcare benefit costs, according to a new analysis by Willis Towers Watson (WTW). The analysis, according to WTW, "reveals a major shift in how employers allocate benefit dollars and prompts questions as to whether they are delivering the benefits their employees want."

The analysis, *Shifts in Benefit Allocations Among U.S. Employers*, found the total cost of employer-provided benefits—health care, retirement, and postretirement medical—rose from 14.8% of pay in 2001 to 18.3% of pay in 2015, a jump of 24%. During this period, healthcare costs for active employees more than doubled, rising from 5.7% to 11.5% of pay.

Conversely, total retirement benefits, which include defined benefit (DB), defined contribution (DC), and postretirement medical plans (PRM), declined by 25% between 2001 and 2015, from 9.1% to 6.8% of pay. The analysis defines total retirement benefits as the combined value of DB, DC, and PRM plans. Other benefits such as paid time off, lifestyle, and flexible benefits are not included in the analysis.

"The rising cost of employee benefits remains a challenge as employers seek to get the most employee value from their pay and benefit programs," said John Bremen, Managing Director, Human Capital and Benefits, WTW, quoted in a press release. "Beyond the overall increase, there has been a seismic shift that can be characterized as a tale of two benefit programs. Health care benefits are eating up a larger portion of dollars while the amount spent on retirement programs is on the decline. This reallocation has major implications for employers and employees alike."

WTW reports that, in 2001, healthcare costs for active employees comprised about two-fifths (42%) of benefits, while retirement benefits made up the remaining three-fifths (58%). By 2015, the ratio had flipped, with healthcare benefits accounting for just under two-thirds of costs (64%) and the retirement share falling to slightly more than one-third (37%).