From the perspective of U.S. firms, the cost of employing workers goes far beyond wages and salaries. Firms’ total employment costs, as measured by the Employment Cost Index (ECI), continued to grow only moderately. In September 2003, overall employment costs for private-sector workers rose 4% from the same month last year, but this figure included a 6.5% increase in benefits costs. From the workers’ perspective, 2002 and 2003 have been good years for real wage growth because the ECI exceeded inflation. For 2002, inflation was only 1.6%, compared to wage and salary growth of 2.8% or compensation growth of 3.4%.

Benefits packages represented about 28% of firms’ employment costs in September 2003. The benefits included in the ECI are diverse: vacations, health care insurance, and pension benefits, as well as mandated benefits like employer contributions to Social Security and unemployment insurance. The rapid escalation in benefits costs was driven partly by rising health insurance costs, which jumped 10.1% in the year ending September 2003. Over the last couple of years, legally required benefits' share of total compensation has been rising, largely because of a sharp increase in state unemployment insurance costs.

Despite the recent acceleration in the growth of benefits costs, compensation increases have been supported by productivity growth, which has reliably exceeded real compensation growth. This implies that current levels of compensation growth should not hurt the average firm’s profits, although some firms will face a larger burden and lowered profits.