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Notes

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Lump-Sum Distributions: An Update

By Craig Copeland, EBRI

The number of private-sector workers in the United States who have a defined contribution retirement plan through an employment-based arrangement as their primary retirement plan has increased tremendously since 1979, while the number of those with a defined benefit retirement plan as their primary plan has decreased. In 1979, 29.0 million private-sector wage and salary workers had a defined benefit plan as their primary plan, and 5.8 million had a defined contribution plan as their primary retirement plan. By 1998, the most recent year for which official data are available, 23.0 million private-sector wage and salary workers had a defined benefit plan as their primary plan and 29.1 million had a defined contribution plan as their primary retirement plan.[1] (Workers participating in a plan increased from 44 percent to 48 percent over the period.)

This change in primary retirement plan type will have a significant impact on individuals' sources of income in retirement.[2] Since a defined contribution plan consists of an account balance that accumulates in the participant's name, the participant has to decide what to do with the account on leaving a job. This is also becoming an issue for those who have defined benefit plans, with the increase in cash balance plans that have a notational account balance that makes the plans appear to operate like defined contribution plans. Traditional defined benefit plans are increasingly allowing workers to cash out their benefits on termination of employment.[3]

After leaving employment with a plan sponsor, an individual has three choices for his or her retirement account: leave the money in the plan, roll it over to another tax-qualified savings vehicle (another employment-based plan or an individual retirement account (IRA)), or cash it out. This choice can profoundly affect participants' financial resources in retirement, particularly in the case of younger workers and those with large balances.[4] Consequently, to determine whether individuals are accumulating and retaining the assets they would need for financial adequacy in retirement, it is important to understand what they do with their retirement plan assets when leaving a job.

This article focuses on the choices—other than leaving the money in the employer's plan—that face a worker on receipt of a lump-sum payment from a retirement plan: rolling the account balance over or cashing out the assets. The number and amounts of lump-sum distributions are estimated, followed by a discussion of what individuals are doing with these distributions and analysis of the important determinants of the decision to roll over the distribution versus cashing it out. These results are derived from recently released data from the U.S. Census Bureau—*The Pension and Retirement Plan Coverage Topical Module of the 1996 Survey of Income and Program Participation*—which includes

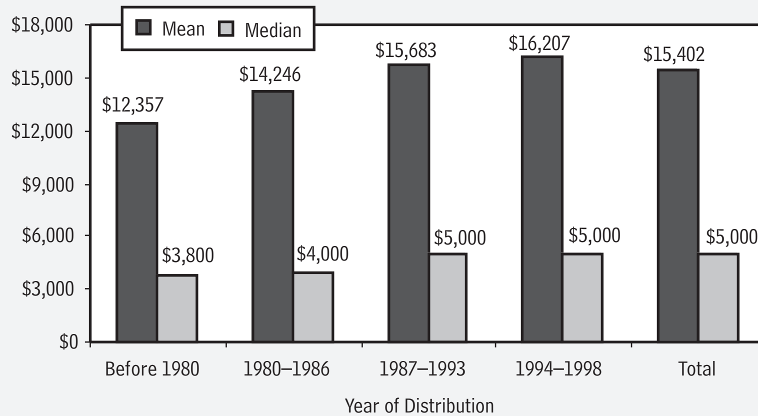


Figure 1
Mean and Median Amounts of Lump-Sum Distributions by Year of Most Recent Distribution Received, Civilians Ages 21 and Over

Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.

lump-sum data for individuals through 1998.[5] This research updates studies done using the Employee Benefits Supplement to the April 1993 Current Population Survey, and supports research done by plan administrators on their clients' participants who receive lump-sum distributions.[6]

Lump-Sum Distributions: An Overview

In 1998, 14.3 million persons ages 21 and over reported ever having received a lump-sum distribution from a retirement plan on a previously held job.[7] To better understand the uses and size of these distributions, individuals were asked further questions about their most recent distribution. The mean amount of these distributions was $15,402, and the median amount was $5,000 (Figure 1).

The amounts of the lump-sum distributions for the most part were relatively small, with 9.3 percent of recipients reporting a distribution of less than $500, 8.2 percent reporting from $500 to less than $1,000, and 16.4 percent reporting from $1,000 to less than $2,500—for a total of 33.9 percent of the distributions being less than $2,500 (Figure 2). The rest of the distributions, except for the 9.2 percent that were $50,000 or more, were between $2,500 and $50,000, with those distributions being almost equally divided among the $2,500–$4,999, $5,000–$9,999,

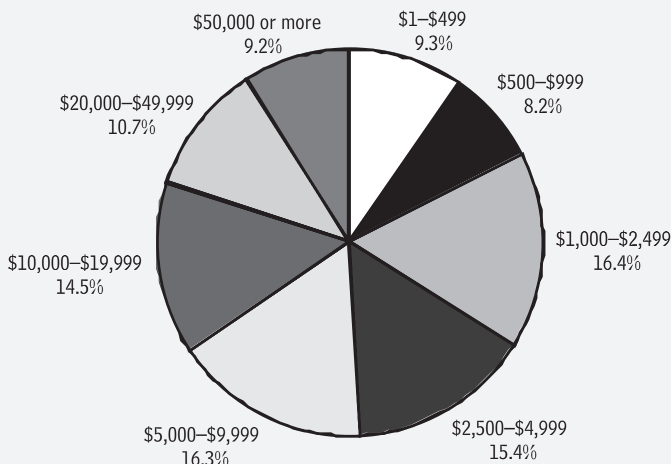


Figure 2
Proportion of Lump-Sum Recipients by Amount of Most Recent Distribution, Civilians Ages 21 and Over, 1998

Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.

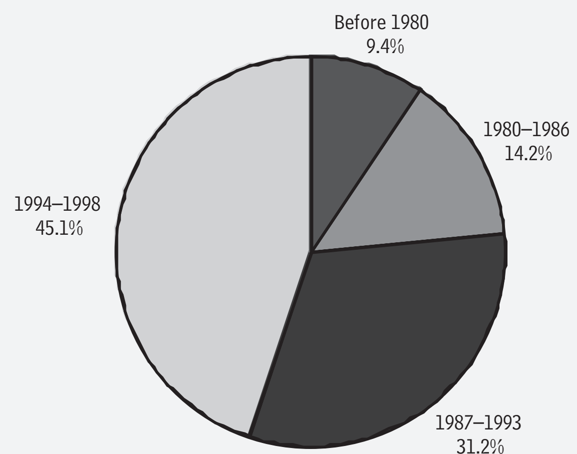
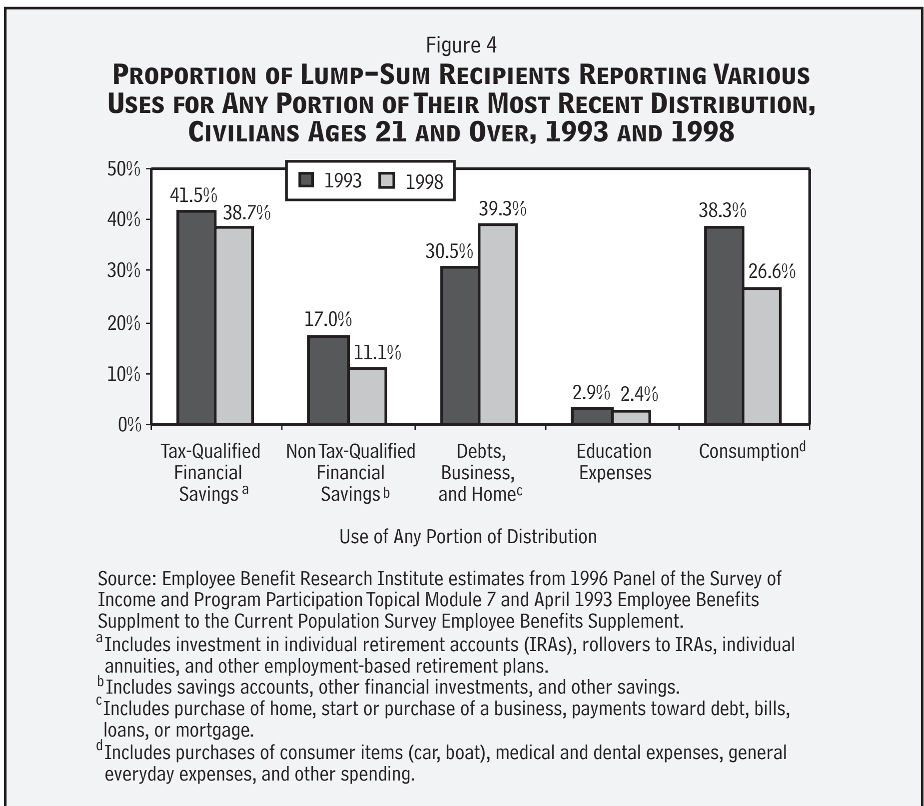


Figure 3
Percentage of Lump-Sum Recipients by Year of Most Recent Distribution Received, Civilians Ages 21 and Over, 1998

Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.

Figure 4

PROPORTION OF LUMP-SUM RECIPIENTS REPORTING VARIOUS USES FOR ANY PORTION OF THEIR MOST RECENT DISTRIBUTION, CIVILIANS AGES 21 AND OVER, 1993 AND 1998



Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7 and April 1993 Employee Benefits Supplment to the Current Population Survey Employee Benefits Supplement.

[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

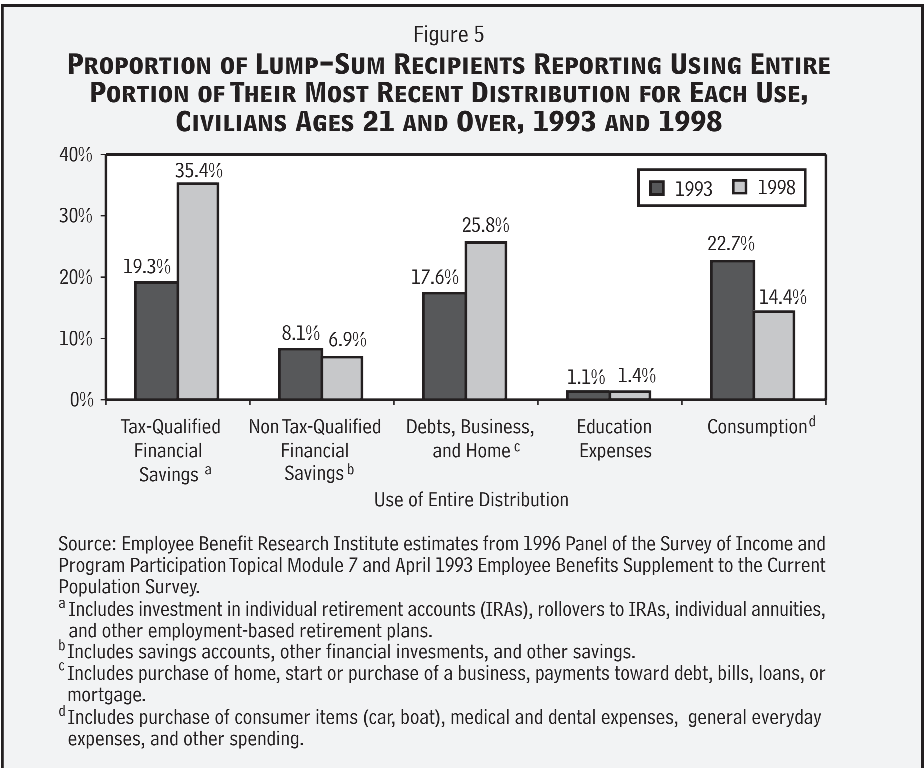
[b] Includes savings accounts, other financial investments, and other savings.

[c] Includes purchase of home, start or purchase of a business, payments toward debt, bills, loans, or mortgage.

[d] Includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

Figure 5

PROPORTION OF LUMP-SUM RECIPIENTS REPORTING USING ENTIRE PORTION OF THEIR MOST RECENT DISTRIBUTION FOR EACH USE, CIVILIANS AGES 21 AND OVER, 1993 AND 1998



Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7 and April 1993 Employee Benefits Supplement to the Current Population Survey.

[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[b] Includes savings accounts, other financial invesments, and other savings.

[c] Includes purchase of home, start or purchase of a business, payments toward debt, bills, loans, or mortgage.

[d] Includes purchase of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

$10,000–$19,999, and $20,000–$49,999 distribution categories. Approximately 45 percent of the lump-sum distribution recipients reported having received their most recent distribution from 1994 to 1998, whereas only 9.4 percent received their most recent distribution before 1980 (Figure 3). The more recent the distribution, the larger the distribution became, as the average distribution among those received from 1994 through 1998 was $16,207, compared with $12,357 for those received before 1980 (Figure 1).[8]

Benefit Preservation

A goal of retirement saving plans such as a 401(k) is to provide income for individuals in their retirement. For this to happen, participants in these plans must preserve their benefits until retirement by retaining any existing plan balance on job termination. This section looks at the percentage of lump-sum recipients who roll over their assets to a tax-qualified plan, thereby preserving their benefits rather than cashing them out.

Among those who reported in 1998 ever having received a distribution, 38.7 percent reported rolling over at least some of their most recent distribution to tax-qualified savings,[9] and 11.1 percent reported using some portion for non-tax qualified savings[10] (Figure 4). This is less than what was reported for workers receiving distributions most recently through 1993, where 41.5 percent of the lump-sum recipients rolled over at least some portion of the distribution to tax-qualified savings and 17 percent used at least some portion for non-tax-qualified savings.[11] However, among those who received their most recent distributions through 1998, the percentage that used any portion of it for consumption[12] was also lower, at 26.6 percent (compared with

38.3 percent of those whose most recent distributions were received through 1993).

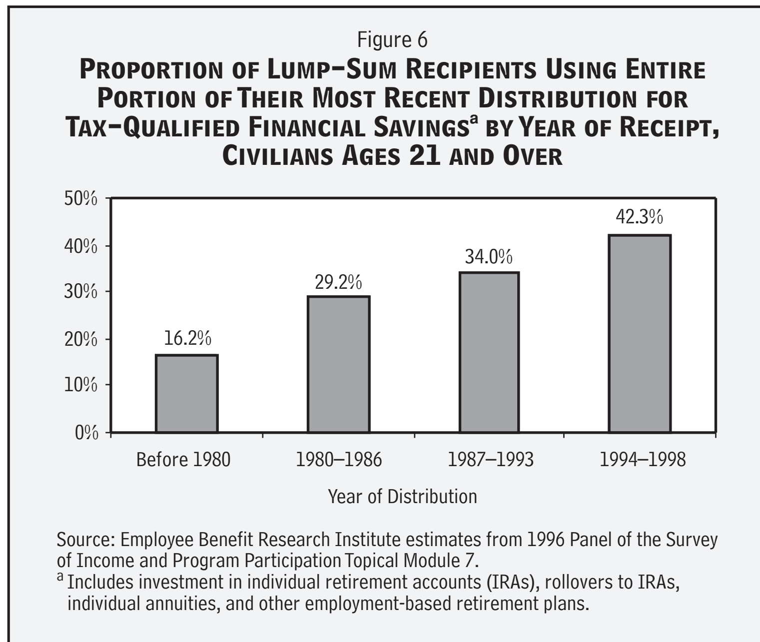
The percentage of lump-sum recipients who used the entire amount of their most recent distribution for tax-qualified savings increased significantly, to 35.4 percent of those who received their most recent distribution through 1998, compared with 19.3 percent of those who received their most recent distribution through 1993 (Figure 5). Furthermore, the percentage of recipients whose most recently received distribution was entirely spent on consumption was 14.4 percent for those whose distributions were received through 1998, compared with 22.7 percent for those who received distributions through 1993.

An important factor in the change in the relative percentages between the 1993 and 1998 data is the percentage of lump sums that were used for only one purpose. Among those who received their most recent distributions in 1998, 83.9 percent used them for only one purpose, compared with 68.8 percent of those who received them through 1993.[13] Consequently, 91.5 percent of those who rolled over at least some of their most recent distribution through 1998 rolled over the entire amount, whereas only 46.5 percent of those who rolled over at least some of their most recent distribution through 1993 did so.[14]

Another technique to check the trend in the percentage of workers who roll over their assets relative to cashing them out is to use the 1996 SIPP Topical Module data to examine when the most recent distributions were received. The most recent distributions from these data are broken down into four categories: before 1980, 1980–1986, 1987–1993, and 1994–1998. In this analysis, the likelihood of the most recent distributions being entirely used for tax-qualified savings increased as the date of the distribution became more recent.[15] Among workers who received their most recent distributions between 1994 and 1998, 42.3 percent used them entirely for tax-qualified savings, whereas only 16.2 percent of those who received their distributions before 1980 used them entirely for tax-qualified savings (Figure 6). In addition, the percentage of those rolling over their distributions who used at least a portion of their most recent distribution for tax-qualified savings also increased in the more recent years. Among those who received their most recent distributions before 1980, 17.8 percent used the distribution at least partly for tax-qualified savings, compared with 45.4 percent of recipients whose most recent distributions dated from 1994 to 1998 (Figure 7). The percentage of recipients using the entire portion of their most recent lump-sum distribution for consumption followed the opposite pattern.

Figure 6

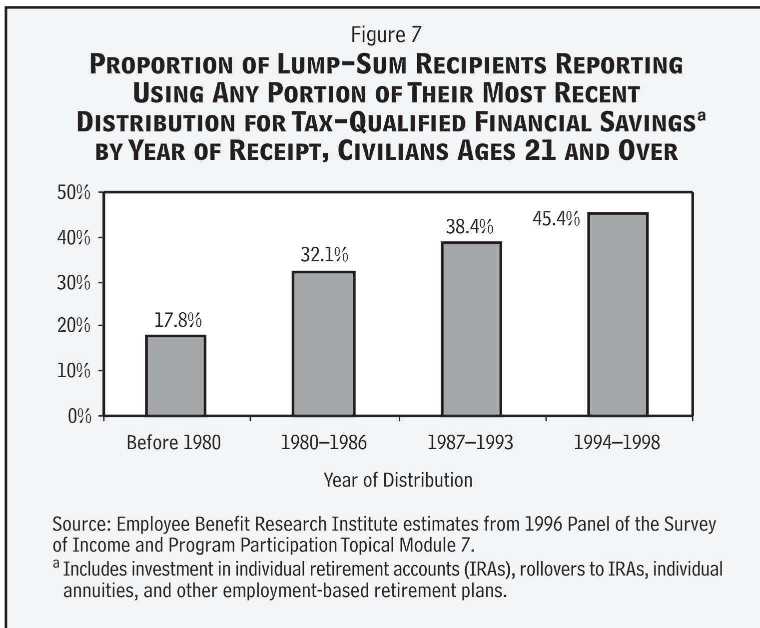
Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution for Tax-Qualified Financial Savings[a] by Year of Receipt, Civilians Ages 21 and Over



Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

Figure 7

Proportion of Lump-Sum Recipients Reporting Using Any Portion of Their Most Recent Distribution for Tax-Qualified Financial Savings[a] by Year of Receipt, Civilians Ages 21 and Over



Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

Among those who received distributions before 1980, 20.3 percent used them exclusively for consumption, compared with only 12.2 percent of those who received distributions from 1994 to 1998 (Figure 8).

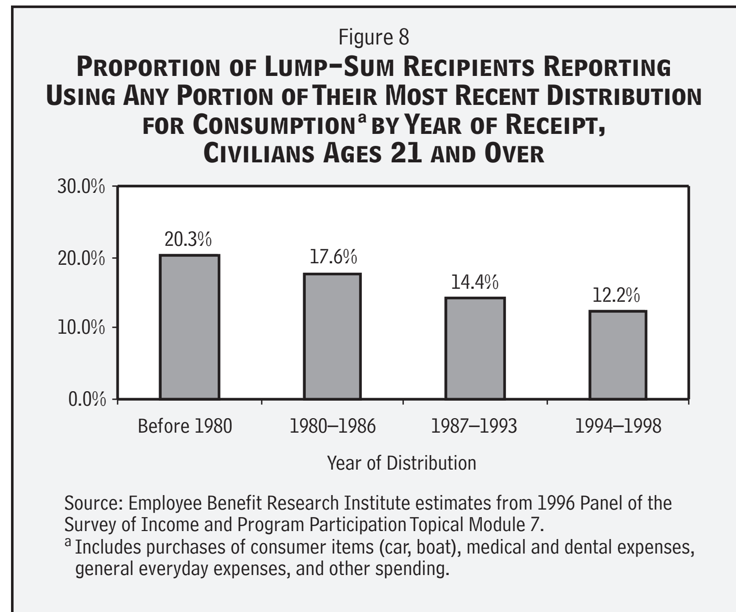


Figure 8
Proportion of Lump-Sum Recipients Reporting Using Any Portion of Their Most Recent Distribution for Consumption[a] by Year of Receipt, Civilians Ages 21 and Over

Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes purchases of consumer items (car, boat), medical and dental expenses, general everyday expenses, and other spending.

Both analysis techniques show that the percentage of lump-sum recipients using the entire portion of their most recent distribution exclusively for tax-qualified savings has significantly increased over time, while the percentage that used their entire sum for consumption has significantly decreased. Consequently, the preservation of benefits appears to have improved from 1993 to 1998. Moreover, recipients who did not use the lump sum for tax-qualified savings were more likely to use it to improve their financial condition by paying off debt or buying a home rather than spending it on additional consumption. A possible major driver of the trend to roll over the entire distribution was the federal government's establishment of a 20 percent withholding tax on distributions not directly rolled over after 1993.[16] Other reasons include better education and the likelihood that the plan was the worker's only retirement savings vehicle. However, the data do not allow for determining the relative importance of these reasons.

Determinants of Benefit Preservation

Two important factors in the use of lump-sum distributions exclusively for tax-qualified savings appear to be the age of the recipient and the size of the distribution. The likelihood of the distribution being rolled over entirely to tax-qualified savings increased with the age of the recipient at the time of receipt. Among recipients ages 61–64, 53.1 percent used their distribution entirely for tax-qualified savings, compared with 23.5 percent of recipients ages 21–30 (Figure 9). Similarly, the larger the distribution, the more likely it was kept entirely in tax-qualified savings. Among recipients with distributions of $1 to $499, 16.7 percent used their distributions exclusively for tax-qualified savings, compared with 70.7 percent of those with distributions $50,000 or more (Figure 10).[17]

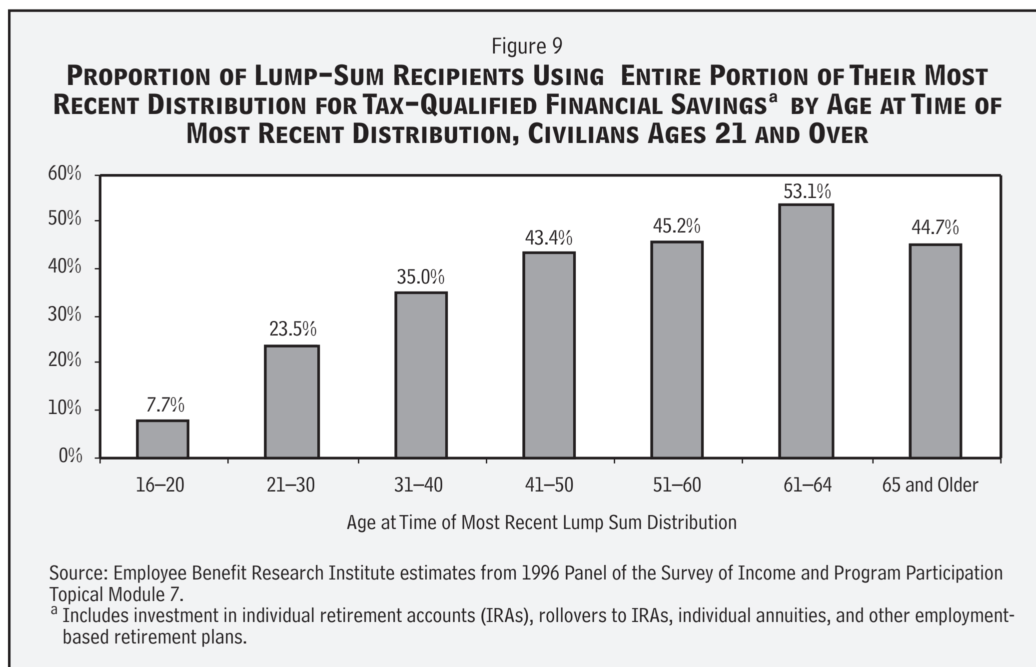


Figure 9
Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution for Tax-Qualified Financial Savings[a] by Age at Time of Most Recent Distribution, Civilians Ages 21 and Over

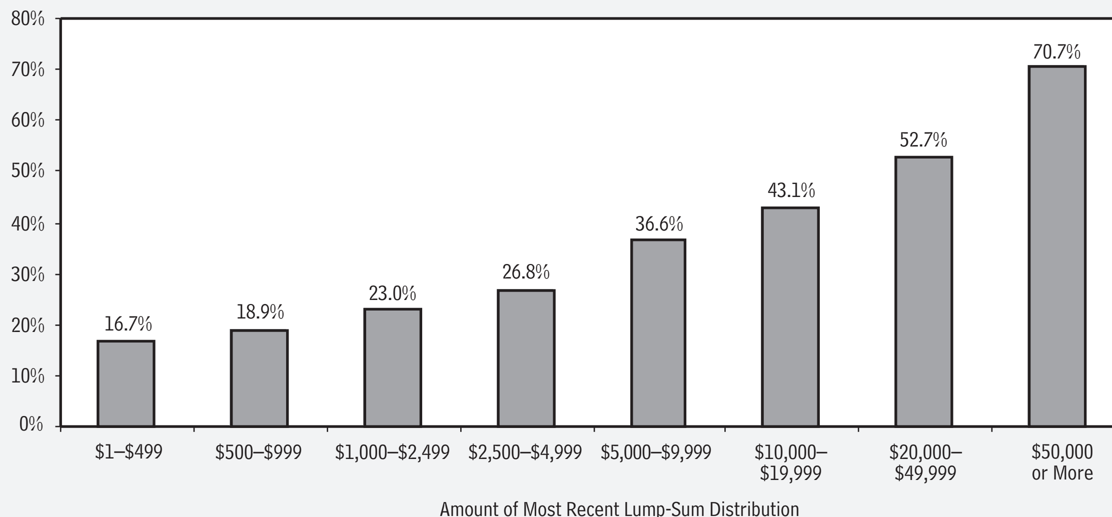
Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

Conclusion

One of the arguments advanced in

Figure 10

Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution for Tax-Qualified Financial Savings[a] by the Amount of their Most Recent Distribution, Civilians Ages 21 and Over



Source: Employee Benefit Research Institute estimates from 1996 Panel of the Survey of Income and Program Participation Topical Module 7.
[a] Includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

favor of defined contribution retirement plans is that the benefits can be retained and continue to grow when individuals change jobs because the account balances continue to receive investment returns. This is in contrast to defined benefit plans, in which the benefits are frozen based on participants' years of participation and wage history at time of termination. However, this advantage of defined contribution plans will result in increased retirement savings only if plan participants do *not* cash out their benefits prior to retirement, and invest wisely.[18] This article assesses the likelihood that lump-sum recipients will cash out their benefit.

The data clearly show that a growing percentage of retirement plan participants are holding on to all or part of their lump-sum distributions and fewer are spending their distributions on consumption. However, it was also found that approximately two-thirds of those who took a lump-sum payment cashed out at least some of it (Figure 5), although not all of those distributions were spent on consumption. This varied significantly across participants' age at the time of the distribution and the amount of the distribution, with older individuals and those with higher balances more likely to roll over their assets. This suggests that individuals, particularly younger ones, do not understand or care that a small amount can make a significant impact on retirement assets due to compound interest. By cashing out even small amounts, younger participants are sacrificing an important asset for their retirement later in life.

One possible reason that a large percentage of small balances are being cashed out is the ability of private-sector plan sponsors to require individuals to take a lump sum if their balance is less than $5,000. Consequently, many individuals with these small balances may not understand the tax implications and cash the check they receive from the plan sponsor after job termination. However, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) established a rollover IRA as the default option for lump-sum distributions of less than $5,000 but more than $2,000. Thus, more individuals will have a rollover IRA established for them, which will likely lead to a larger percentage of those with small balances retaining their assets in tax-qualified savings.[19]

While EGTRRA is likely to help increase the percentage of those choosing a rollover, it will not prevent many individuals from taking the money and spending it when they leave a job, particularly those with less than $2,000 in their accounts. Therefore, to significantly reduce the number of defined contribution plan participants who cash out their lump-sum distributions, more education and incentives are needed to make them understand the importance of retaining these assets for retirement. Otherwise, an advantage of defined

contribution plans will be lost, with the result that many workers may be forced to rely on only the funds that have accumulated in their most recent job to provide their retirement income. This could result in the government (taxpayers) needing to provide retirees with an adequate retirement income at a time when both Social Security and Medicare are projected to be unable to fund the benefits now established by law.

Endnotes

[1] U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin*: *Abstract of 1998 Form 5500 Annual Reports*, No. 11 (Winter 2001–2002).

[2] See Jack VanDerhei and Craig Copeland, "The Changing Faces of Private Retirement Plans," *EBRI Issue Brief* no. 232 (Employee Benefit Research Institute, April 2001).

[3] The percentage of full-time workers participating in a defined benefit plan in a medium or large establishment not offered a lump-sum distribution decreased from 85 percent in 1995 to 76 percent in 1997. See U.S. Department of Labor, Bureau of Labor Statistics (1998) *Employee Benefits in Medium and Large Private Establishments*, 1995 and 1997. www.bls.gov/ncs/ebs/sp/ebbl0015.pdf and www.bls.gov/ncs/ebs/sp/ebbl0017.pdf

[4] For example, a 25-year-old who leaves an employer after accumulating a $5,000 account balance would have approximately $24,600 at age 65, assuming a constant 4 percent return compounded monthly.

[5] The 1996 Panel of the Survey of Income and Program Participation (SIPP), conducted by the U.S Census Bureau, follows the same households for a four-year period asking various questions on their economic and demographic status. The survey participants are interviewed at four-month intervals about a core set of demographic and economic issues. In addition, topical modules ask more specific questions about important economic issues. The Retirement and Pension Plan Coverage Topical Module was fielded in March–June 1998 and asked questions about workers participation in retirement and/or pension plans in addition to the questions on lump-sum distributions.

[6] See Employee Benefit Research Institute, "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey," *EBRI Issue Brief* no. 153 (Employee Benefit Research Institute, September 1994); Leonard E. Burnam, Norma B. Coe, and William G. Gale, "What Happens When You Show Them the Money? Lump Sum Distributions, Retirement Income Security and Public Policy," paper presented at the Second Annual Joint Conference for the Retirement Research Consortium, "The Outlook for Retirement Income," May 17–18, 2000, Washington, DC; and Michael Hurd, Lee Lillard, and Constantijn Pantis, "An Analysis of the Choice to Cash Out Pension Rights at Job Change or Retirement," paper presented at the *Retirement Research and Public Policy Conference*, Washington, DC, January 11, 2002 for studies of the April 1993 Current Population Survey. For plan administrators, see Fidelity Investments, *Building Futures Volume III*, Fidelity Investments, 2001, and Lynn Miller, "The Ongoing Growth of Defined Contribution and Individual Account Plans: Issues and Implications," *EBRI Issue Brief* no. 243 (Employee Benefit Research Institute, March 2002) for Fidelity Investment data; and Mike McCarthy and Liz McWhirter, "Are Employees Missing the Big Picture?" *Benefits Quarterly* (First Quarter 2000): 25–31 for Hewitt & Associates data. The Fidelity study differs from this report in two important ways: It includes the individuals who did not take a lump sum from their plan although their employment was terminated from the plan sponsor, whereas this report only looks at those who took a lump-sum distribution. Fidelity found that 67 percent of the terminated employees left their assets in their plan. However, if you only look at those who took a lump-sum payment, the trends across ages and account balance sizes are similar to those in this study. The comparison between these numbers is more difficult as the Fidelity study only looked at what happened during 2000, where some terminated employees (or their plan sponsors) may have not yet made a decision on what to do with their (the) assets, while this article only examines those who took a lump-sum distribution—where a

decision had been made on what was to be done with the assets.

[7] This includes individuals who were participants in the plan along with any survivors of those who were in a plan.

[8] These are nominal amounts. Thus, some of the average increase of the lump-sum distributions is due to inflation.

[9] This includes investment in individual retirement accounts (IRAs), rollovers to IRAs, individual annuities, and other employment-based retirement plans.

[10] This includes savings accounts, other financial investments (e.g., stocks and bonds), and other savings.

[11] The results for the lump-sum distributions most recently received through 1993 are tabulated from the *April 1993 Employment Benefits Supplement to the Current Population Survey*. See Employee Benefit Research Institute (1994), op. cit., for further information and results from this survey. It is possible that some individuals could have had a lump-sum distribution both before 1993 and between 1994 and 1998, where the 1996 SIPP would only be asking about the distribution that occurred between 1994 and 1998. Therefore, the change could result both because some individuals chose to do something different with their distribution the next time as well as additional individuals having a lump-sum distribution.

[12] This includes purchases of consumer items (e.g., car, boat), medical and dental expenses, general everyday expenses, and other spending.

[13] This is calculated by summing up the percentages of lump-sum recipients using the entire portion of their most recent distribution for each purpose for the respective year in Figure 5.

[14] This is calculated by taking the percentage of those using the entire portion of their lump sum distribution for tax-qualified savings and dividing it by the percentage that used at least some portion of their lump-sum distribution for tax-qualified savings for the respective year.

[15] These results are only from the 1996 SIPP concerning their most recent distribution through 1998, so there is no replacement issue similar to those in the earlier results.

[16] The 1992 Unemployment Compensation Amendments established a 20 percent withholding tax requirement for any lump-sum distribution from an employment-based retirement plan not directly rolled over to another tax-qualified savings vehicle. See Burman, Coe, and Gale (2000), op. cit., and Hurd, Lillard, and Panis (1998), op. cit., for further discussion of the tax consequences of lump-sum distributions.

[17] These findings are similar to those found in other studies such as those cited in endnote 6.

[18] This is also an issue with defined benefit plan participants who cash out their benefits by taking a lump-sum distribution, especially with the growth of cash balance plans, which appear to many to operate like a defined contribution plan.

[19] These data cannot be used to assess this impact as they are from 1998, which is before the enactment of EGTRRA, but they do provide a benchmark for comparison when data become available.

Washington Update

by Jim Jaffe, EBRI

As End Nears, Congressional Agenda Grows

In early June, President Bush significantly expanded the congressional agenda by proposing a major governmental reorganization to deal with homeland security issues. While initial support for the president's plan was broad and bipartisan, it is too complex to be enacted by Congress quickly or easily—and legislative debate won't even begin before early July. Many must-pass bills, including the Fiscal Year 2004 budget and a welfare reform renewal, remain to be done.

By the end of July, the mandatory issues will be pushing lesser-priority legislation off the agenda. That includes Enron-inspired 401(k) bills passed by the House and cleared by the Senate Health, Education, Labor, and Pension Committee. With the clock ticking down to the scheduled Oct. 4 congressional adjournment, and many big-ticket items unfinished, chances are dwindling that any kind of pension reform will be enacted this year.

Government Again Faces Cash Crunch

As this is written, the Bush administration is warning that the government will lose authority to borrow needed money by end of June unless Congress raises the debt limit, but Congress is having political trouble doing so. The Senate in early June passed a bill for the sole purpose of increasing the debt ceiling. But the House leadership, aware that many conservative members will not vote for more borrowing, wants to wrap the provision in broader legislation with more popular features. The result was an impasse.

Despite a bleak prognosis and projected dire scenarios, the government won't necessarily be forced to close down if it reaches its borrowing authority. In the past, the government has temporarily borrowed from employee retirement funds to bridge the gap. This happened briefly earlier this year.

House Endorses Permanent Pension Tax Cut

The House of Representatives June 21 voted 308–70 to approve a bill that would make several retirement tax breaks permanent. Before passing the bill, House Republicans defeated a Democratic effort to increase taxes on corporate executives.

The bill would remove the 2010 expiration from part of the $1.35 trillion tax cut last year that raised limits on contributions to 401(k) plans and individual retirement accounts (IRAs). Last year's tax cut (known as EGTRRA) included provisions to permit increasingly higher annual contributions to 401(k) plans, until they reach $15,000 in 2006. Contributions to individual retirement accounts top out at $5,000 in 2008. If the "sunset" date of Dec. 31, 2010, is not repealed, the two caps would drop to the 2001 levels, and other changes, including higher "catch-up" limits for people 50 and older, would vanish.

The House bill to make the tax cuts permanent would deepen the already-growing federal deficit, by adding an estimated $6.1 billion to the 10-year cost of the tax cut. For that and other political reasons, the Senate is considered unlikely to pass a similar bill, at least not without many of the Democratic proposals that were rejected by the House.

Senate Approves Trade Negotiating Authority Renewal; Tough Conference Seen

A bipartisan deal expanding the president's international trade negotiating authority led to easy Senate approval (by a 66–33 vote) in late May. But provisions added to ease Senate passage will make it more difficult to come up with a compromise agreement in an upcoming conference with the House. And the Senate bill contains some language that the president finds unacceptable. As reported earlier, the White House agreed to a Democratic plan that would have the government provide a 70 percent COBRA subsidy for workers who lost their jobs because of imports—a provision that will be a sticking point in conference for

Keeping on Track

IRS Proposes New Sec. 457 Regs—The Internal Revenue Service May 8 issued a long-awaited proposed update to Sec. 457 (public-sector and tax-exempt) salary reduction plans. The sweeping rewrite of the regulations incorporate changes instigated by the enactment of last year's tax bill (EGTRRA). The regulations would be effective for taxable years beginning after Dec. 31, 2001, although plan amendments to reflect EGTRRA and the proposed regulations are not required to be adopted until either further guidance on plan amendments or final regulations are issued. Comments are due by Aug. 6 and a public hearing will be held Aug. 28.

EEOC Promises Relief for Health Plans Coordinated With Medicare Benefits—The Equal Employment Opportunity Commission (EEOC) plans to issue regulations to protect employers that modify benefits when beneficiaries become eligible for Medicare or comparable programs for state retirees. The proposed regulations are a response to a recent court ruling, which held that employers that make such distinctions are violating EEOC age discrimination rules. The new regulations should be out by the end of the year.

Eighth Circuit Further Defines ADA Coverage—The Court of Appeals for the Eighth Circuit has ruled that Americans With Disabilities Act protection does not apply to a truck driver who lost sight in one eye as a result of a hunting accident, thereby falling out of compliance with Department of Transportation vision standards for commercial drivers. His employer, Roadway Express, refused him a full-time job that required driving and offered him a part-time position that did not include driving responsibilities.

Gender Pay Disparity Colors Retirement Income—Women are more dependent on government programs for retirement income than are men, according to a report by the Women's Institute for Secure Retirement, presented at a hearing by the Senate Aging Committee. Social Security benefits provide half the total income for unmarried women older than 65, but only a third of income for unmarried men and married couples in the same age category. That's partly a reflection of the fact that only about one retired woman in four receives pension income, about half the rate for men, the study found.

Tobacco Workers Challenge Sale of Former Employer's Stock—Participants in the 401(k) plan at R.J. Reynolds Tobacco have filed a class-action suit against the plan sponsor for selling their stock in Nabisco foods. The tobacco firm was a subsidiary of Nabisco until the two units—food and tobacco—became independent units in early 2000. The Nabisco stock held by the tobacco workers was frozen several months prior to that, when it was announced that the investment would be liquidated. The suit alleges that no such liquidation was required and that it was widely anticipated that the food stock would soar after the corporate divorce; a significant increase in the stock price did, in fact, occur.

conservative House Republicans. Troublesome from the White House perspective is a bipartisan amendment added by the Senate that would restrict the president's right to present proposed trade treaties for a simple up-or-down vote. The White House has lacked such trade negotiating authority since 1994.

Medicare Rx Drug War: Call The Spin Doctor!

At this writing, House Republicans and Democrats are sparring over adding a prescription drug benefit to the Medicare program, and both sides are accusing the other of playing politics with the issue for primary benefit of the upcoming November elections. The House GOP is pushing to pass a market-oriented approach through that chamber, subsidizing insurance companies to offer drug coverage to Medicare beneficiaries, at a projected cost of $350 billion over 10 years—considerably less than Democratic proposals, which call for a more direct federal payment for Medicare prescription drugs.

Democrats accuse the Republicans of promoting a "sham" bill, hoping to inoculate themselves against senior citizen wrath at the polls by passing a bill they know the Democrat-controlled Senate will not accept; Republicans accuse the Democrats of being obstructionist just to keep the senior citizen bloc on their side. Given the increasingly polarized environment, chances are slim that a Medicare prescription drug bill will be enacted this year.

Supreme Court Rules ADA Doesn't Guarantee Access to Hazardous Jobs

In one of its final rulings of the current session, the Supreme Court in early June decided unanimously that the Americans With Disabilities Act couldn't be used to require employers to allow workers to take jobs that could prove hazardous to their health. The ruling came in the case of a contract worker with a liver ailment who was denied a position in a California oil refinery. The court rejected his argument that he should be allowed to make the decision about whether the job was too dangerous.

Midwest Coalition Quantifies Cost of Health Inefficiency

Employers could save a third of the average $4,900 per worker they spend annually on health care benefit costs if they successfully insisted on the type of quality improvements they typically demand of other suppliers, according to a new study from the Midwest Business Group on Health. The study, which was done by Juran Associates, estimated that employers waste $390 billion a year on outmoded and inefficient medical procedures. At a time when employers are experiencing premium cost increases well into double digits, the report suggests a new strategy for containing costs by providing better care.

Reiterating an argument made during the managed care debate, the American Medical Association made a qualified endorsement of quality measures, but said the decision on which providers are favored should be made by individual patients rather than institutions such as employers or health insurance carriers.

The study found some confirmation of the "if you build it, they will come" thesis, finding that cities with many specialists had higher per capita health care bills than others. A survey during the mid-1990s found that patients in Miami tended to make 25 specialist visits during the last six months of life, while those in Baltimore made only 8.7. The national average was 10.3.

The Juran study concluded that bargaining for price cuts would yield little additional savings. There is greater advantage, it says, in selecting providers who are using best practices. Examples include:

- Ford reports saving $5,000 on each of 500 patients who used hospitals that met specified quality standards.
- In parts of New York state, plans pay a 4 percent bonus to hospitals that have met quality and safety goals for prescriptions and intensive care units.
- Oxford Health plans offer primary care physicians in New Jersey fees up to 10 percent above the norm if they meet specified quality goals.

EBRI in Focus

CEO Activities

EBRI President and CEO Dallas Salisbury has been appointed to a two-year term on the Advisory Committee on Medicare Education, of the Centers for Medicare and Medicaid Services (CMS), U.S. Department of Health and Human Services, and participated in his first meeting in late May. The CMS Web site has a growing section on health education, and the agency is developing new radio and television public service announcements to expand knowledge of what Medicare does and does not cover.

In a similar public education campaign, EBRI is also working with the Social Security Administration on its 2003 "Save For Your Future" education program, which will also stress the need to save for financial independence, including for retiree medical and long-term care expenses. The program will also seek to increase public understanding of the level of retirement benefits provided by Social Security, and the need for supplemental savings for those who wish to maintain their preretirement standard of living in retirement. The EBRI-ERF American Savings Education Council program is the lead partner with SSA on "Save For Your Future." Learn more at www.ssa.gov

Other recent presentations by Salisbury:

- On May 31, he keynoted the Council of Insurance Agents and Brokers 2002 Council on Employee Benefits Symposium with a presentation on "Benefits Trends: An Overview of Change."
- On June 5, he also opened the Norfolk Virginia Employer Health Coalition Annual Seminar with a keynote address on "The Business Case for Health Insurance Coverage," and then conducted a workshop on "Trends and Developments in Employment-Based Health Plans."
- On June 6, he keynoted the 2002 Health and Welfare Plan Management for Mid-Sized Employers conference on "What's Next in Managed Care and How Will It Impact Employer-Sponsored Health Care?"
- He also briefed employees of Fidelity Investments Retirement Services on results of the EBRI/ASEC/Greenwald 2002 Retirement Confidence Survey as the "kick-off speaker" on June 7, introducing a new internal professional development program.
- On June 10, he gave a presentation to 300 executives at the Met Life Insurance/Institutional Business Officers Meeting on "Demographics and The Future of Benefits/Overview of Change," emphasizing the implications of individuals not saving enough to deal with retiree health and long-term care expenses and of spending money at too fast a pace in retirement and outliving their savings.
- Salisbury serves on the board of directors of the Society for Human Resources Management, and attended the June meeting and SHRM annual conference in Philadelphia before flying to Paris as part of the United States Delegation to the 2002 Pension, Health and Insurance Meetings of the Organization for Economic Cooperation and Development (OECD).

CHEC Study Progressing

On June 13, staff from EBRI's Consumer Health Education Council (CHEC) met with employers and health benefit managers in Phoenix as part of a national study funded by the Robert Wood Johnson Foundation. Designed to explore employers' attitudes (and practices) toward covering their workers and toward the issue of covering more of the uninsured, the project involves a national electronic survey, four regional meetings, and a literature search. Earlier this year, CHEC and EBRI researchers met with employers in New York City, Chicago, and Atlanta. For more information, contact Ray Werntz, president and COO of CHEC, at (202) 775-6302 or werntz@healthchec.org

EBRI's 25th Anniversary in 2003

EBRI will celebrate its 25th anniversary in 2003, with a gala event at the Waldorf-Astoria Hotel in New York City. Carrying on a tradition from the 10th, 15th, and 20th anniversary galas, the Capitol Steps Political Comedy Group will travel to New York to provide the evening's enter-

tainment, following no more than 10 minutes of celebratory speeches (another popular tradition). Plan to spend the weekend in the Big Apple!

For details, contact Patsy D'Amelio at (202) 775-6323 or by e-mail at 25th@ebri.org Proceeds from the dinner will support the EBRI Fellows Program, established on the 10th anniversary to support research and education on economic security and other EBRI-ERF programs. There are now 125 EBRI Fellows across the nation making use of EBRI data and research, as well as undertaking new research projects for EBRI.

New Subscribers and Members Wanted

EBRI is seeking to expand the number of publications subscribers and Members at all levels. For information, call Ken McDonnell at (202) 659-0670 or visit www.ebri.org Have recommendations of people and organizations we might contact? We would love to have them. Or, give EBRI publication subscriptions as a gift or incentive to employees, clients, or a community or university library.

New Publications & Internet Resources

[*Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications published by GPO, call (202) 512-1808. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809.*]

Compensation

Foundation for Enterprise Development. The Entrepreneur's Guide to Equity Compensation. $35. Foundation for Enterprise Development, 2020 K Street, NW, Ste. 400, Washington DC 20036, (202) 530-8920, fax: (202) 530-5702.

Levine, David I., et al. How New Is the "New Employment Contract"?: Evidence from North American Pay Practices. $40 cloth, $22 paper. W.E. Upjohn Institute for Employment Research, 300 S. Westnedge Ave., Kalamazoo, MI 49007-4686, (616) 343-5541.

Employee Benefits

Buck Consultants. Employee Welfare Benefits: A Survey of Time Off, Disability and Special Benefits. $200. Buck Consultants, Inc., National Survey Center, 500 Plaza Dr., Secaucus, NJ 07096-1533, (201) 553-6400.

International Foundation of Employee Benefit Plans. Employee Benefit Issues: The Multiemployer Perspective. IFEBP members, $38; nonmembers, $45 + S&H. International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 69, Brookfield, WI 53008-0069, (888) 33-IFEBP, fax: (414) 786-8670, e-mail: books@ifebp.org.

Society for Human Resource Management. 2002 Benefits Survey. $125; SHRM members, $79.95. Society for Human Resource Management, 1800 Duke St., Alexandria, VA 22314-3499, (800) 444-5006.

Health Care

Bailit Health Purchasing, LLC. (1) Ensuring Quality Health Plans: A Purchaser's Toolkit for Using Incentives. (2) Ensuring Quality Providers: A Purchaser's Toolkit for Using Incentives. Free. National Health Care Purchasing Institute, 1801 K St., NW, Suite 701L, Washington, DC 20006, (202) 291-6700, www.nhcpi.net.

Conning & Company. Defined Contribution Approaches to Health Care Benefits: The Long-Awaited Answer? $575. Conning Corp., City Place II, 185 Asylum St., Hartford, CT 06103, (888) 707-1177 or (860) 520-1521.

Leatherman, Sheila, and Douglas McCarthy. Quality of Health Care in the United States: A

Chartbook. Free. The Commonwealth Fund, One E. 75th St., New York, NY 10021-2692, (888) 777-2744, www.cmwf.org.

Mayes, Donald S. Dental Benefits: A Guide to Dental PPOs, HMOs and Other Managed Plans. Revised edition. IFEBP members, $45; nonmembers, $53 + S&H. International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 69, Brookfield, WI 53008-0069, (888) 33-IFEBP, fax: (414) 786-8670, e-mail: books@ifebp.org.

McSweeney, Mary Helen. Long-Term Care: An Emerging Employer Benefit. WorldatWork members, $34.95; nonmembers, $95. WorkatWork, Attn: Customer Relations, 14040 N. Northsight Blvd., Scottsdale, AZ 85260, (877) 951-9191.

Silow-Carroll, Sharon, and Lisa Duchon. E-Health Options for Business: Evaluating the Choices. Free. The Commonwealth Fund, One E. 75th St., New York, NY 10021-2692, (888) 777-2744, www.cmwf.org.

U.S. Congress. House Committee on Education and the Workforce. ERISA, The Foundation of Employee Health Coverage. Order from GPO.

U.S. Congress. Senate Special Committee on Aging. The High Cost of Prescription Drugs. Order from GPO.

U.S. General Accounting Office. Private Health Insurance: Number and Market Share of Carriers in the Small Group Health Insurance Market. Order from GAO.

General Reference

Columbia Books. National Trade and Professional Associations of the United States. $149. Columbia Books, Inc., 1825 Conn. Ave., NW, Suite 625, Washington, DC 20009, (202) 464-1662, fax: (202) 464-1775, www.d-net.com/columbia.

Insurance Information Institute. The Fact Book 2002 [property/casualty insurance facts]. $27.50 + S&H. Insurance Information Institute, Attn: Publications Dept., 110 William St., 24th Floor, New York, NY 10038, (212) 669-9200, fax: (212) 732-1916.

Pension Plans/Retirement

Conning & Company. The Retirement Marketplace: The Pressures and the Promise. $1,000. Conning Corp., City Place II, 185 Asylum St., Hartford, CT 06103, (888) 707-1177 or (860) 520-1521.

U.S. Congress. House Committee on Education and the Workforce. (1) H.R. 2269, The Retirement Security Advice Act. (2) Pension Security Act of 2002. Order from GPO.

U.S. Congress. House Committee on Ways and Means. Employee Retirement Savings Bill of Rights. Order from GPO.

U.S. General Accounting Office. Private Pensions: IRS Can Improve the Quality and Usefulness of Compliance Studies. Order from GAO.

Social Security

Feldstein, Martin, and Jeffrey B. Liebman. The Distributional Aspects of Social Security and Social Security Reform. $57. University of Chicago Press, Order Dept., 11030 S. Langley Ave., Chicago, IL, 60628, (800) 621-2736, fax: (800) 621-8476.

Mackenzie, G.A. The Distribution Phase of an Individual Accounts Reform of Social Security: The Potential Role for Private Sector Annuities. Free. The Urban Institute Press, P.O. Box 7273, Dept. C., Washington, DC 20044, toll-free: (877) 847-7377, fax: (202) 467-5775, e-mail: pubs@ui.urban.org.

Documents Available on the Internet

2001 Retiree Health and Prescription Drug Coverage Survey
www.kff.org/content/2002/6020/

2001 Survey of the Funded Position of Multi-employer Plans
www.segalco.com/publications/surveysandstudies/spring02fundingsurvey.pdf

Compliance Checklist 2002 for: Defined Benefit Plans, Defined Contribution Plans and Nonqualified Executive Benefit Plans
www.cigna.com/professional/pdf/Cklt02basic.pdf

The Factors Fueling Rising

Healthcare Costs
www.aahp.org/InternalLinks/PwCFinalReport.pdf

The Gender Gap in Pension Coverage: What Does the Future Hold?
www.iwpr.org/pdf/d447.pdf

PWBA Needs to Improve Oversight of Cash Balance Plan Lump Sum Distributions
www.oig.dol.gov/public/reports/oa/2002/09-02-001-12-121.pdf

Promoting Annuitization: Ensuring the Financial Security of Today's Workers for a Lifetime
www.acli.com/public/media/pubs/annuitization.pdf

Quantitative Measures for Evaluating Social Security Reform Proposals
www.actuary.org/pdf/socialsecurity/reform_april02.pdf

Social Marketing: A Vehicle for Employer-Driven Health Promotion and Disease Prevention
www.nhcpi.net/pdf/socialmarketing.pdf

Trends and Indicators in the Changing Health Care Marketplace 2002
www.kff.org/content/2002/3161/

Women as Retirees
www.womenintheeconomy.org/publications/retirement/womenasretirees.pdf

Worksite Health Promotion Sites

Association for Worksite Health Promotion
www.health.gov/nhic/NHICScripts/Entry.cfm?HRCode=HR1853

Center for Prevention and Health Services
www.wbgh.org/cphs/index.html

The Combined Health Information Database
chid.nih.gov/

Employee Services Management Association
www.esmassn.org/

Health Enhancement Research Organization
www.the-hero.org/

Heart at Work Online
216.185.102.50/haw/

Hope Health
www.hithope.com/

InteliHealth: Workplace Health
www.intelihealth.com/IH/ihtIH/WSIHW000/20813/20813.html?k=navx408x20813

Partnerships for a Healthy Workforce
www.prevent.org/phw_home.htm

WELCOA: The Wellness Councils of America
www.welcoa.org/

Wellness Innovations
www.wellnessinnovations.net/

Workplace Resource Center
workplace.samhsa.gov/

EBRI offers no endorsement of, and assumes no liability for, the currency, accuracy, or availability of any information on these sites.

Clarification

Regarding the article, "Defined Contribution Plans With Rate of Return Guarantees," in the May 2002 issue of *EBRI Notes,* officials of the YMCA Retirement Fund report that the Fund meets the requirements of a church plan under the Internal Revenue Code (IRC) Sec. 414(e) and is a church plan pursuant to IRC Sec. 414(e)1.

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Notes

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