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Notes

Uninsured Rose in 2002 as Number of Americans With Employment-Based Health Benefits Declined

by Paul Fronstin, EBRI

Introduction

Among all Americans, 61.3 percent—or 175.3 million—were covered by employment-based health benefits during 2002 (Figure 1), according to EBRI estimates of recently released government data.¹ This is down from 2000, when 63.6 percent of the population was covered by employment-based health benefits. This continues a trend that started between 2000 and 2001, before which the percentage of Americans covered by employment-based health benefits had been increasing since 1993.

The decline in employment-based health benefits can be attributed to a decline in the percentage of both workers and nonworkers with health insurance coverage.² The decline in employment-based health benefits was coupled with an increase in the number and percentage of Americans without health insurance coverage. Between 2001 and 2002, the number of uninsured Americans increased from 41.2 million to 43.6 million, while the percentage increased from 14.6 percent to 15.2 percent. These trends are the result of a weak economy and

rising health benefit costs.

While the majority of Americans with health insurance in 2002 received it through an employment-based health plan, 73.6 million Americans received health insurance from public programs. More than 33 million Americans participated in Medicaid (the federal-state health care program for poor),³ while 38.4 million received health benefits under Medicare (the federal health care insurance program for the elderly and disabled), and 10.1 million through the Tricare/CHAMPVA⁴ programs and other government programs designed to provide coverage for retired military members and their families. Most of the expansion in public coverage occurred in Medicaid and the State Children's Health Insurance Program (S-CHIP).

Health Insurance Coverage Among the Nonelderly

Employment-based health benefits are the most common source of health insurance coverage in the United States. Among nonelderly Americans (those under age 65), 161 million—or 64.2 percent—had employment-based coverage in 2002. Children, working family-heads,⁵ other workers, and nonworkers were all more likely to have employment-based health coverage than any other type of coverage, either public or private (Figure 2). Those individuals whose family head did not work were more likely to

Figure 1
AMERICANS WITH SELECTED SOURCES OF HEALTH INSURANCE COVERAGE, 2000-2002

	2000	2001	2002	2000	2001	2002
	(millions)			(percentage)		
Total Population	279.5	282.1	285.9	100%	100%	100%
Employment-Based Coverage	177.8	176.6	175.3	63.6	62.6	61.3
Public	69.0	71.3	73.6	24.7	25.3	25.7
Medicare	37.7	38.0	38.4	13.5	13.5	13.4
Medicaid	29.5	31.6	33.2	10.6	11.2	11.6
Tricare/CHAMPVA ^b	9.1	9.6	10.1	3.3	3.4	3.5
No Health Insurance	39.8	41.2	43.6	14.2	14.6	15.2

Source: Robert J. Mills and Shailesh Bhandari, "Health Insurance Coverage in the United States: 2002," *Current Population Reports* P60-223 (Washington, DC: U.S. Department of Commerce, Economics and Statistics Administration, September 2003).

Note: Details may not add to totals because individuals may receive coverage from more than one source.

^aTRICARE (formally known as CHAMPUS) is a program administered by the Department of Defense for military retirees as well as families of active duty, retired, and deceased service members. CHAMPVA, the Civilian Health and Medical Program for the Department of Veterans Affairs, is a health care benefits program for disabled dependents of veterans and certain survivors of veterans.

Figure 2
**NONELDERLY POPULATION WITH SELECTED SOURCES OF HEALTH INSURANCE,
 BY OWN WORK STATUS AND WORK STATUS OF FAMILY HEAD, 2002**

Own Work Status and Work Status of Family Head	Total	Employment-Based Coverage			Individually Purchased	Public		
		Total	Own name	Dependent		Total	Medicaid	Uninsured
(millions)								
Total	250.8	161.0	82.5	78.5	16.8	40.0	29.9	43.3
Own Work Status								
Child	73.3	43.9	0.2	43.7	5.6	19.7	17.5	8.5
Family head worker	90.7	65.0	59.2	5.8	5.6	6.0	3.8	16.5
Other worker	51.4	37.9	19.4	18.5	2.7	3.1	1.5	9.2
Nonworker	35.4	14.3	3.7	10.5	3.0	11.3	7.2	9.1
Work Status of Family Head								
Full-year, full-time worker	187.7	139.9	69.8	70.0	10.0	18.5	12.8	26.2
Other worker	37.2	15.9	9.0	6.9	4.1	9.5	8.0	9.7
Nonworker	26.0	5.3	3.7	1.6	2.7	12.0	9.2	7.3
(percentage within coverage category)								
Total	100%	100%	100%	100%	100%	100%	100%	100%
Own Work Status								
Child	29.2	27.3	0.2	55.7	33.0	49.2	58.5	19.7
Family head worker	36.2	40.3	71.7	7.4	33.1	14.9	12.6	38.0
Other worker	20.5	23.5	23.5	23.6	16.2	7.6	5.0	21.2
Nonworker	14.1	8.9	4.5	13.4	17.7	28.2	23.9	21.0
Work Status of Family Head								
Full-year, full-time worker	74.8	86.9	84.6	89.2	59.6	46.2	42.6	60.5
Other worker	14.8	9.9	10.9	8.8	24.4	23.7	26.6	22.5
Nonworker	10.4	3.3	4.5	2.0	16.0	30.2	30.8	17.0
(percentage within work status categories)								
Total	100%	64.2%	32.9%	31.3%	6.7%	15.9%	11.9%	17.3%
Own Work Status								
Child	100	59.9	0.3	59.6	7.6	26.8	23.9	11.6
Family head worker	100	71.6	65.2	6.4	6.1	6.6	4.1	18.2
Other worker	100	73.7	37.7	36.0	5.3	5.9	2.9	17.9
Nonworker	100	40.3	10.6	29.7	8.4	31.9	20.2	25.7
Work Status of Family Head								
Full-year, full-time worker	100	74.5	37.2	37.3	5.3	9.8	6.8	14.0
Other worker	100	42.8	24.2	18.6	11.1	25.4	21.4	26.2
Nonworker	100	20.3	14.1	6.1	10.3	46.4	35.5	28.3

Source: Employee Benefit Research Institute estimates of the 2003 Current Population Survey, March Supplement.

Note: Details may not add to totals because individuals may receive coverage from more than one source.

Figure 3
**NONELDERLY POPULATION WITH SELECTED SOURCES OF HEALTH INSURANCE,
 BY FIRM SIZE OF FAMILY HEAD'S EMPLOYER, 2002**

Firm Size of Family Head's Employer	Total	Employment-Based Coverage			Individually Purchased	Public		
		Total	Own name	Dependent		Total	Medicaid	Uninsured
(millions)								
Total	250.8	161.0	82.5	78.5	16.8	40.0	29.9	43.3
Self-Employed	23.2	11.2	4.9	6.3	4.8	2.3	1.7	5.5
Wage and Salary Workers	201.6	144.5	73.9	70.6	9.4	25.6	19.0	30.4
Public Sector	32.9	27.0	14.0	13.0	1.1	4.4	1.8	2.5
Private Sector	168.7	117.5	60.0	57.5	8.2	21.2	17.2	28.0
fewer than 10	22.9	10.0	5.2	4.8	2.2	4.2	3.7	7.2
10–24	17.3	9.5	5.0	4.5	1.2	2.8	2.4	4.3
25–99	26.4	17.7	9.3	8.4	1.2	3.5	2.9	4.9
100–499	27.6	20.9	10.7	10.2	1.1	3.1	2.5	3.6
500–999	10.2	8.0	4.0	4.0	0.4	1.0	0.7	1.1
1,000 or more	64.2	51.3	25.7	25.7	2.1	6.6	5.0	6.8
Nonworker	26.0	5.3	3.7	1.6	2.7	12.0	9.2	7.3
(percentage within coverage categories)								
Total	100%	100%	100%	100%	100%	100%	100%	100%
Self-Employed	9.3	7.0	5.9	8.1	28.4	5.7	5.8	12.8
Wage and Salary Workers	80.4	89.8	89.6	89.9	55.6	64.2	63.4	70.2
Public sector	13.1	16.8	17.0	16.6	6.8	11.1	6.1	5.7
Private sector	67.3	73.0	72.7	73.3	48.8	53.1	57.4	64.5
fewer than 10	9.1	6.2	6.3	6.1	13.1	10.5	12.4	16.7
10–24	6.9	5.9	6.0	5.8	7.1	7.1	7.9	10.0
25–99	10.5	11.0	11.3	10.7	7.2	8.7	9.6	11.4
100–499	11.0	13.0	13.0	12.9	6.5	7.7	8.3	8.3
500–999	4.1	5.0	4.9	5.1	2.5	2.4	2.4	2.6
1,000 or more	25.6	31.9	31.1	32.7	12.5	16.5	16.7	15.6
Nonworker	10.4	3.3	4.5	2.0	16.0	30.2	30.8	17.0
(percentage within firm size categories)								
Total	100%	64.2%	32.9%	31.3%	6.7%	15.9%	11.9%	17.3%
Self-Employed	100	48.4	21.0	27.3	20.6	9.7	7.5	23.8
Wage and Salary Workers	100	71.7	36.7	35.0	4.6	12.7	9.4	15.1
Public sector	100	82.2	42.5	39.7	3.5	13.5	5.5	7.5
Private sector	100	69.6	35.5	34.1	4.9	12.6	10.2	16.6
fewer than 10	100	43.6	22.6	21.0	9.6	18.3	16.2	31.5
10–24	100	54.9	28.7	26.1	6.9	16.4	13.7	25.1
25–99	100	67.1	35.4	31.7	4.6	13.2	10.9	18.7
100–499	100	75.6	38.8	36.8	3.9	11.2	9.0	13.0
500–999	100	78.8	39.6	39.2	4.1	9.5	7.2	10.9
1,000 or more	100	79.9	40.0	40.0	3.3	10.3	7.8	10.5
Nonworker	100	20.3	14.1	6.1	10.3	46.4	35.5	28.3

Source: Employee Benefit Research Institute estimates of the 2003 Current Population Survey, March Supplement.
 Note: Details may not add to totals because individuals may receive coverage from more than one source.

be covered by Medicaid or S-CHIP (35.5 percent), or to be uninsured (28.3 percent), than to have employment-based health insurance (20.3 percent).

Firm Size—Individuals without health insurance coverage were more likely to be from families whose family head worked for a small firm rather than for a large one. Persons

with a family head working in a firm with fewer than 10 workers had a 31.5 percent probability of being uninsured (Figure 3). This compares with a 25.1 percent probability of

Figure 4

NONELDERLY POPULATION WITH SELECTED SOURCES OF HEALTH INSURANCE, BY REGION AND STATE, 2002

Region and State	Total	Employment-Based Coverage			Individually Purchased	Public		
		Total	Own name	Dependent		Total	Medicaid	Uninsured
	(millions)	(percentage within state and region categories)						
Total	250.8	64.2%	32.9%	31.3%	6.7%	15.9%	11.9%	17.3%
New England	12.1	70.7	35.4	35.3	5.8	15.0	12.2	11.8
Maine	1.1	63.9	33.8	30.1	7.0	21.8	17.0	13.5
New Hampshire	1.1	77.1	37.2	39.9	5.5	9.4	6.5	11.2
Vermont	0.5	66.7	34.3	32.3	6.5	21.5	18.6	12.2
Massachusetts	5.6	70.8	35.7	35.1	5.6	14.6	12.4	11.4
Rhode Island	0.9	68.1	35.6	32.5	6.2	18.3	16.5	11.3
Connecticut	2.9	72.1	34.6	37.5	5.7	13.1	9.6	12.3
Middle Atlantic	34.6	66.7	33.7	33.0	5.4	14.9	12.8	16.1
New York	16.8	62.0	32.3	29.8	5.1	17.8	15.8	17.9
New Jersey	7.5	71.5	34.9	36.6	4.0	11.4	9.5	15.8
Pennsylvania	10.4	71.0	35.3	35.6	6.7	12.8	10.4	13.3
East North Central	39.9	70.5	34.3	36.2	5.9	13.0	10.4	14.0
Ohio	9.9	72.1	34.8	37.4	5.5	13.1	10.3	13.5
Indiana	5.4	71.2	35.1	36.1	5.9	10.7	8.0	14.8
Illinois	11.0	68.2	33.7	34.5	5.6	12.2	9.9	15.9
Michigan	8.8	70.7	33.9	36.8	5.6	14.9	12.5	13.1
Wisconsin	4.8	71.4	34.9	36.5	8.0	13.3	10.6	11.1
West North Central	16.9	70.5	35.8	34.7	8.8	14.0	10.2	11.4
Minnesota	4.5	74.7	38.5	36.2	7.9	12.5	9.8	8.8
Iowa	2.5	71.0	35.9	35.1	9.7	13.0	10.2	10.9
Missouri	4.9	69.0	35.8	33.2	7.8	14.6	11.3	13.2
North Dakota	0.5	64.7	31.5	33.3	12.1	14.9	9.4	12.8
South Dakota	0.7	66.4	34.5	31.9	10.8	14.9	10.5	13.0
Nebraska	1.5	66.1	32.4	33.7	11.2	15.4	10.8	11.6
Kansas	2.3	70.0	34.1	35.9	8.7	15.4	8.5	12.1
South Atlantic	45.6	63.6	33.7	29.9	6.9	16.5	10.6	17.8
Delaware	0.7	71.4	37.8	33.6	5.8	15.5	11.6	11.3
Maryland	4.8	72.3	35.5	36.8	5.9	10.2	6.3	15.0
District of Columbia	0.5	61.4	43.8	17.6	6.1	21.4	19.5	14.6
Virginia	6.3	68.6	35.7	32.9	6.6	16.2	6.7	15.4
West Virginia	1.5	58.3	28.7	29.6	4.4	25.9	18.3	17.3
North Carolina	7.1	61.3	34.9	26.3	5.6	18.4	12.1	19.2
South Carolina	3.4	62.7	32.3	30.5	6.5	22.8	16.0	14.4
Georgia	7.7	66.4	35.1	31.3	5.6	14.3	10.2	17.7
Florida	13.6	58.4	31.2	27.2	9.2	16.3	10.8	20.6
East South Central	14.8	63.1	33.2	29.9	6.2	21.7	15.7	14.7
Kentucky	3.5	63.9	34.6	29.3	6.4	20.5	11.7	15.6
Tennessee	5.0	61.8	33.0	28.9	7.4	25.3	20.1	12.0
Alabama	3.8	68.3	33.6	34.7	4.8	16.4	10.6	14.8
Mississippi	2.5	56.6	31.2	25.4	5.7	24.6	19.9	18.8
West South Central	28.5	54.7	28.9	25.8	6.7	17.0	12.4	25.8
Arkansas	2.3	54.2	28.7	25.4	7.5	24.7	15.4	19.1
Louisiana	3.9	54.6	27.8	26.8	6.6	21.9	16.8	20.9
Oklahoma	3.0	59.1	30.3	28.8	7.1	17.9	12.0	20.0
Texas	19.4	54.1	28.9	25.2	6.5	15.0	11.2	28.5
Mountain	16.6	61.6	30.7	30.9	7.7	15.7	10.5	19.2
Montana	0.8	53.7	28.3	25.4	14.1	18.8	12.3	18.0
Idaho	1.1	62.5	31.4	31.1	7.1	14.7	11.5	20.2
Wyoming	0.4	63.4	31.7	31.7	6.8	13.9	9.2	20.1
Colorado	4.0	65.0	34.1	30.9	8.5	12.5	6.4	18.0
New Mexico	1.6	53.6	27.4	26.2	4.0	23.1	17.9	24.2
Arizona	4.7	57.8	28.9	28.8	8.0	19.7	13.2	19.5
Utah	2.1	67.5	26.8	40.6	8.9	12.6	9.9	14.4
Nevada	1.9	66.1	35.2	31.0	5.2	9.8	5.8	22.3
Pacific	41.7	60.2	31.5	28.7	7.6	17.3	13.7	19.1
Washington	5.4	63.5	34.9	28.5	7.6	18.0	13.6	15.8
Oregon	3.1	63.1	33.6	29.4	8.7	17.5	13.2	16.5
California	31.6	59.0	30.5	28.5	7.7	17.0	13.8	20.1
Alaska	0.6	60.0	29.6	30.4	3.9	26.3	15.0	20.3
Hawaii	1.0	69.7	37.4	32.4	5.7	19.2	10.6	11.6

Source: Employee Benefit Research Institute estimates of the 2003 Current Population Survey, March Supplement.

Note: Details may not add to totals because individuals may receive coverage from more than one source.

being uninsured for persons with a family head working in a firm with 10–24 workers, 18.7 percent for 25–99 workers, 13 percent for 100–499 workers, 10.9 percent for 500–999 workers, and 10.5 percent for 1,000 or more workers.

Publicly Provided Coverage and Children—The percentage of the population covered by public programs increased between 2000 and 2002. Between 2000 and 2002, the percentage of Americans covered by Medicaid increased from 10.6 percent to 11.6 percent, while the percentage covered by Medicare remained at about 13.5 percent, and the percentage covered by Tricare/CHAMPVA increased from 3.3 percent to 3.5 percent (Figure 1). As a result, it appears as though the expansion in public coverage was due mainly to expansions of Medicaid and S-CHIP among the nonelderly population.

Nearly 44 million children (ages 0–17) were insured by employment-based health benefits in 2002, while 8.5 million (or 11.6 percent of all children) were uninsured (Figure 2). Various factors influence the likelihood of a child having insurance and the source of that coverage. For example, children in families in which the family head works for a small employer are more likely to be uninsured than those in families in which the family head works for a large employer. Income is another major determinant of coverage. Children in low-income families are generally more likely to be uninsured than those in higher-income families. As income increases, the percentage of children covered by

employment-based health insurance increases and the percentage covered by publicly financed health insurance programs decreases.

Coverage by Region and State—The percentage of nonelderly Americans with employment-based health benefits varies among regions and states, ranging from a high of 70.7 percent in New England to a low of 54.7 percent in the West South Central region (Figure 4). States with the lowest proportion of uninsured individuals include Minnesota (8.8 percent), Wisconsin (11.1 percent), and Iowa (10.9 percent), while those with the highest proportion of uninsured include Texas (28.5 percent), New Mexico (24.2 percent), and Nevada (22.3 percent).

The percentage of the population in urban areas without any form of health insurance is higher than the national average and also varies by metropolitan region. On average, 18.5 percent of the population residing in Consolidated Metropolitan Statistical Areas (CMSAs) was uninsured in 2002 (Figure 5). The Houston-Galveston-Brazoria, TX, CMSA had the highest percentage uninsured among CMSAs, at 30.1 percent, followed by Dallas-Fort Worth, TX, at 29.4 percent. This compares with 10.8 percent in Boston-Worcester-Lawrence, MA-NH-ME-CT, and 11 percent in Milwaukee-Racine, WI.

Conclusion

The data provided in this paper provide an early look at the effect of a weak economy, combined with

rising health benefit costs, on the number of Americans who have employment-based health benefits, who are covered by public programs, and who are uninsured. Initial findings indicate that the decline in the percentage of Americans with employment-based health benefits was due to erosion of coverage among both workers and nonworkers. In response to the weak economy and rising health benefit costs, small employers either dropped health benefits or required workers to pay more for health benefits when they were offered.⁶

These trends should be expected to continue or worsen as long as the economy remains weak and the cost of providing health benefits continues to increase. Expected trends in health insurance and technical issues in counting the uninsured will be discussed more fully in EBRI's forthcoming *Issue Brief*, "Sources of Coverage and Characteristics of the Uninsured: Analysis of the March 2003 Current Population Survey."

Endnotes

¹ EBRI's health insurance coverage figures for 2002 reflect recent statistics available on the insured and uninsured as tabulated from the March 2003 Current Population Survey (CPS), a survey of the noninstitutionalized U.S. population conducted by the U.S. Census Bureau. The uninsured estimates from the March CPS are supposed to represent the percentage of Americans without health insurance coverage during an entire calendar year. However, based on

Figure 5
**NONELDERLY POPULATION LIVING IN CONSOLIDATED METROPOLITAN STATISTICAL AREAS (CMSAs)
 WITH SELECTED SOURCES OF HEALTH INSURANCE, BY CMSA,^a 2002**

CMSA	Total	Employment-Based Coverage			Individually Purchased	Public		
		Total	Own name	Dependent		Total	Medicaid	Uninsured
	(millions)							
		(percentage within CMSA category)						
Total	100.7	65.1%	33.3%	31.8%	6.2%	13.4%	10.7%	18.5%
Boston-Worcester-Lawrence, MA-NH-ME-CT	5.1	74.0	36.8	37.2	5.6	11.8	9.6	10.8
Chicago-Gary-Kenosha, IL-IN-WI	8.0	69.2	34.1	35.1	6.2	10.5	8.2	16.0
Cincinnati-Hamilton, OH-KY-IN	1.7	72.4	34.8	37.7	7.1	11.5	6.7	12.6
Cleveland-Akron, OH	2.7	75.9	36.3	39.6	4.0	9.8	7.3	13.2
Dallas-Fort Worth, TX	5.7	56.9	31.0	25.9	5.7	12.0	7.4	29.4
Denver-Boulder-Greeley, CO	2.6	69.0	36.2	32.8	8.2	8.7	5.6	17.5
Detroit-Ann Arbor-Flint, MI	5.1	70.8	33.9	37.0	5.3	14.4	12.4	13.2
Houston-Galveston-Brazoria, TX	4.3	58.1	31.3	26.8	3.9	11.0	8.5	30.1
Los Angeles-Riverside-Orange County, CA	15.4	55.	27.8	27.2	7.5	16.3	13.9	24.1
Miami-Fort Lauderdale, FL	3.3	53.9	30.1	23.8	8.6	14.5	11.8	25.2
Milwaukee-Racine, WI	1.6	74.0	35.5	38.5	5.1	12.5	11.1	11.0
New York-Northern New Jersey-Long Island, NY-NJ-CT-PA	18.9	63.5	32.4	31.1	4.5	15.4	13.8	19.0
Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD	5.5	69.8	34.4	35.4	6.4	13.9	11.1	13.7
Portland-Salem, OR-WA	2.2	66.6	34.2	32.5	7.9	15.4	12.7	14.6
Sacramento-Yolo, CA	1.6	65.9	37.1	28.8	9.8	17.3	12.5	13.6
San Francisco-Oakland-San Jose, CA	6.2	70.8	38.4	32.3	8.0	10.8	7.4	14.5
Seattle-Tacoma-Bremerton, WA	3.3	65.8	37.5	28.3	7.0	16.9	11.9	16.0
Washington-Baltimore, DC-MD-VA-WV	7.2	72.5	36.2	36.4	5.9	10.8	6.5	14.7

Source: Employee Benefit Research Institute estimates of the 2003 Current Population Survey, March Supplement.

Note: Details may not add to totals because individuals may receive coverage from more than one source.

^a The specific metropolitan identifiers on this file are based on the Office of Management and Budget's June 30, 1993, definitions.

comparisons with other surveys, many researchers concur that the uninsured estimate from the CPS is closer to a point-in-time estimate than a calendar year estimate. More information about the CPS, and other surveys that collect data on the uninsured, can be found in Paul Fronstin, "Counting the Uninsured: A Comparison of National Surveys," *EBRI Issue Brief* no. 225 (Employee Benefit Research Institute, September 2000). See also U.S. Congressional Budget Office, *How Many People Lack Health Insurance and For How Long?* www.cbo.gov/showdoc.cfm?index=4211&sequence=0 (Last reviewed October 2003).

² Robert J. Mills and Shailesh Bhandari, "Health Insurance Coverage in the United States: 2002," *Current Population Reports* P60-223 (Washington, DC: U.S.

Department of Commerce, Economics and Statistics Administration, September 2003).

³ The estimate for Medicaid also includes children enrolled in the State Children's Health Insurance (S-CHIP) program. Medicaid and S-CHIP (and Medicare) estimates are under-reported in the CPS, according to comparisons of these data with enrollment and participation data provided by the Centers for Medicare and Medicaid Services (CMS). See Mills and Bhandari, *ibid*.

⁴ Tricare (formerly known as CHAMPUS) is a program administered by the Department of Defense for military retirees as well as families of active duty, retired, and deceased service members. CHAMPVA, the Civilian Health and Medical Program for the

Department of Veterans Affairs, is a health care benefits program for disabled dependents of veterans and certain survivors of veterans.

⁵ "Family head" refers to the member of the family with the highest reported personal earnings. In families of nonworkers, the family head is the family member with the highest reported income.

⁶ Gabel et al, "Job-Based Health Insurance in 2001: Inflation Hits Double Digits, Managed Care Retreats," *Health Affairs*, Vol. 20, no. 5 (September/October 2001): 180-186, found that the percentage of employers with three to 199 workers offering health benefits dropped from 67 percent to 65 percent between 2000 and 2001. However, the decline was not statistically significant.

Income of the Elderly Population: 2002

By Ken McDonnell, EBRI

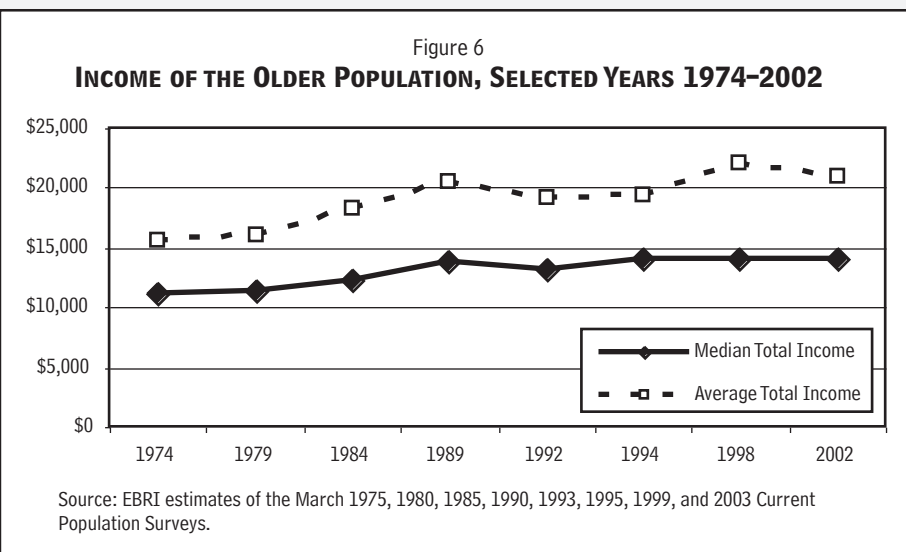
The U.S. retirement income system—including employment-based retirement plans, Social Security, individual saving, and post-retirement employment—can be assessed in part by examining the income of the current elderly population (age 65 and older). This article reviews the latest available data on the older population's income (from the U.S. Census Bureau's March 2003 Current Population Survey) and how it has changed over time, as well as how the elderly's reliance on these sources varies across income levels.

Income Levels

The median income level¹ of the elderly population increased from \$10,949 (in constant 2002 dollars) in 1974 to \$13,803 (in 2002 dollars) in 1989 (Figure 6). It dropped to \$13,079 (in 2002 dollars) in 1992, rebounding to \$14,105 in 1998. By 2002 the median income of the elderly had declined to \$13,994. The average income of the elderly followed a similar pattern over this period.

Income Sources

In 2002, Social Security was the largest source of income for those currently age 65 and older, accounting for 42.5 percent of their income



on average (Figure 7). Pension and retirement plan income was 20.2 percent, income from assets 14.0 percent, and earnings 21.1 percent.

Social Security—The fraction of the elderly's income coming from Social Security (Old-Age, Survivors, and Disability Insurance, or OASDI) fell during the decade of 1979–1989 (from 42.7 percent to 38.6 percent); increased to 42.9 percent in 1995, then declined to 41.3 percent in 2000. By 2002, Social Security had increased to 42.5 percent of the elderly's income (Figure 8).

Pension and Annuities—The fraction of the elderly's income provided by pensions and annuities increased from 14.0 percent in 1974 to 19.0 percent in 1995 (Figure 8). Income provided by pensions and

annuities increased from 19.7 percent in 2000 to 20.2 percent in 2002.

Assets—Income from assets followed a bell curve, going from 18.2 percent in 1974 to a peak of 28.2 percent in 1984. Income from assets has steadily declined since then, reaching 14.0 percent in 2002 (Figure 8).

Earnings—The fraction of the elderly's income coming from

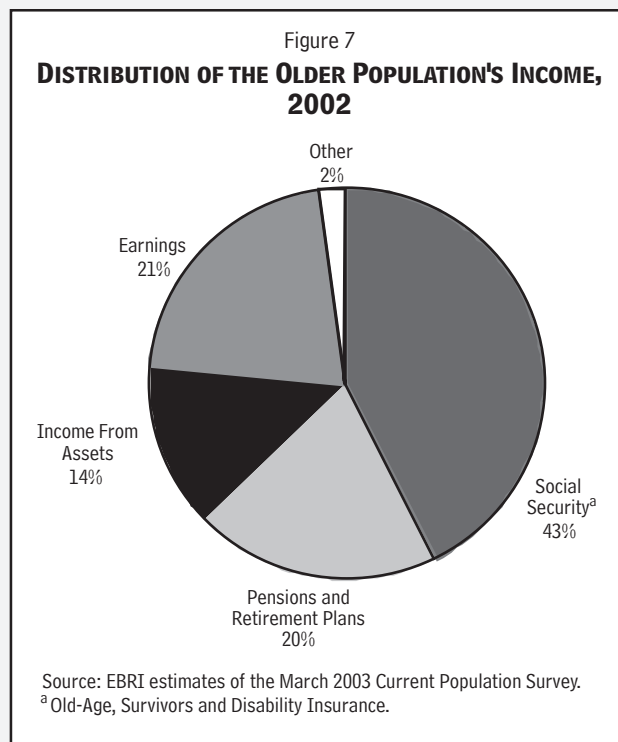


Figure 8

DISTRIBUTION OF THE OLDER POPULATION'S INCOME BY INCOME SOURCE, SELECTED YEARS 1974–2002

	Total	Lowest Quintile	2	3	4	Highest Quintile
		(Equal to or greater than \$7,025 in 2002)	(\$7,026 to \$11,376 in 2002)	(\$11,377 to \$16,767 in 2002)	(\$16,768 to \$28,249 in 2002)	(Equal to or greater than \$28,250 in 2002)
OASDI ^a						
1974	42.0%	88.6%	77.7%	74.6%	55.4%	19.9%
1979	42.7	79.1	71.9	78.7	51.9	20.5
1984	40.5	80.2	79.7	68.1	48.0	19.6
1989	38.6	81.5	78.8	65.2	45.8	17.9
1995	42.9	87.6	85.1	74.9	51.6	21.2
2000	41.3	90.7	88.0	74.1	49.6	19.9
2001	42.0	90.7	86.8	76.5	50.3	20.2
2002	42.5	90.2	88.0	77.5	51.4	20.1
Pensions and annuities ^{b, c}						
1974 ^b	14.0	1.5	2.3	4.6	14.4	18.8
1979	14.8	1.1	5.6	2.1	15.7	20.6
1984	15.0	1.2	2.8	8.2	18.5	18.9
1989	17.5	2.0	3.8	10.6	21.1	21.6
1995	19.0	2.2	3.5	8.2	21.8	24.5
2000	19.7	1.6	3.3	10.8	25.5	22.3
2001	19.5	1.9	3.6	9.6	23.7	24.1
2002	20.2	2.5	3.8	10.0	24.4	24.9
Income from assets						
1974	18.2	3.8	4.4	7.4	14.1	25.7
1979	21.5	7.1	13.1	9.1	19.5	28.4
1984	28.2	7.4	8.5	16.5	23.5	38.6
1989	25.2	6.7	9.1	16.1	22.4	33.2
1995	18.2	6.2	8.1	11.6	16.1	23.3
2000	17.8	4.6	5.8	9.0	13.4	24.3
2001	17.0	3.9	6.4	8.9	13.4	22.8
2002	14.0	3.1	5.3	7.1	10.7	19.0
Earnings						
1974	21.3	-3.2	2.8	4.8	11.4	33.8
1979	17.3	0.3	3.9	1.6	9.9	28.8
1984	13.3	0.2	1.5	3.7	8.2	21.3
1989	15.8	0.2	1.7	5.0	8.6	25.3
1995	17.6	1.7	1.6	3.5	8.2	28.6
2000	19.7	0.5	1.8	4.4	9.2	31.3
2001	19.4	1.2	1.9	3.7	10.3	30.5
2002	21.1	1.3	1.7	3.8	10.8	33.7
Other ^{b, d}						
1974 ^b	4.5	9.3	12.8	8.6	4.7	1.7
1979	3.6	12.3	5.5	8.5	3.0	1.7
1984	2.9	11.0	7.5	3.6	1.8	1.7
1989	2.9	9.7	6.6	3.1	2.1	2.0
1995	2.2	2.3	1.6	1.8	2.2	2.4
2000	2.0	2.6	1.0	1.7	2.3	2.1
2001	2.1	2.3	1.3	1.3	2.2	2.4
2002	2.2	2.8	1.3	1.5	2.6	2.2

Source: Employee Benefit Research Institute tabulations of the March 1975, March 1980, March 1985, March 1990, March 1996, and March 1999–2003 Current Population Surveys.

^a Old-Age, Survivors and Disability Insurance; includes railroad retirement.

^b In 1974, the percentage of income of the older population represented by pension income may be overstated and the percentage of income represented by "other" income sources may be understated. Total private pension income of individuals age 55 and over in 1974 was \$10.451 billion; however, because some sources of income in the "other" category are included in private pension income, the actual pension total is overstated by between 2 percent and 12 percent, or is between \$9.221 billion and \$10.243 billion. Similarly, public pension income in 1974 was \$13.603 billion but is potentially overstated by between 7 percent and 18 percent, falling in the range of \$11.226 billion and \$12.638 billion. Income from "other" income sources is understated by the amount pension income is overstated.

^c Includes pension, annuity, survivors, and disability benefits.

^d Includes public assistance, Supplemental Security Income, unemployment compensation, workers' compensation, veterans' benefits, nonpension survivors' benefits, nonpension disability benefits, educational assistance, child support, alimony, regular financial assistance from friends or relatives not living in the individual's household, and other sources of income.

earnings fell from 21.3 percent in 1974 to 13.3 percent in 1984. From 1995 to 2000, earnings accounted for a growing share of the elderly's income, increasing from 17.6 percent to 19.7 percent. Between 2001 and 2002, earnings, as a share of the elderly's income, increased from 19.4 percent to 21.1 percent (Figure 8).

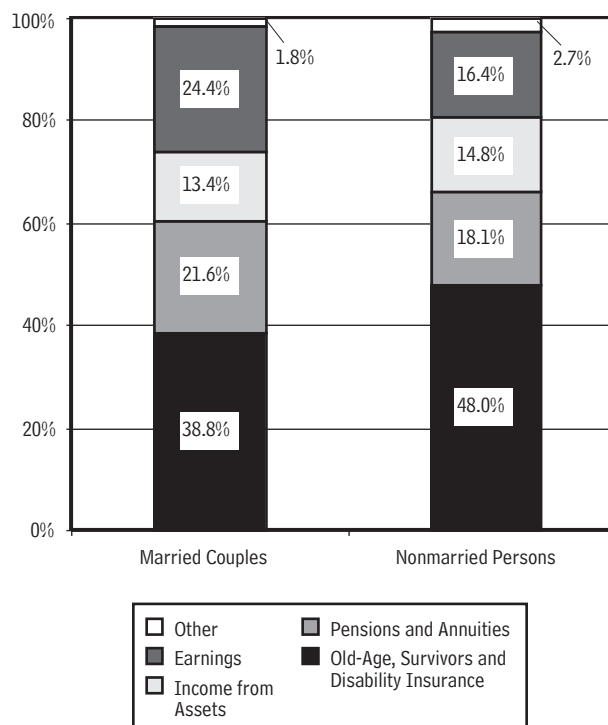
Income Composition

Income composition varies across income groups. In 2002, the lowest income quintile received 90.2 percent of its income from Social Security, and the highest income quintile received 20.1 percent of its income from Social Security (Figure 8). The other three main sources of the elderly's income (pensions and annuities, income from assets, and earnings) all increase in importance for the higher-income quintiles. In 2002, the lowest-income quintile received 2.5 percent of its income from pensions and annuities, 3.1 percent from assets, and 1.3 percent from earnings. By comparison, the highest-income quintile received 24.9 percent from pensions and annuities, 19.0 percent from income from assets, and 33.7 percent from earnings.

Marital Status—Nonmarried persons receive a larger share of their income from Social Security than married persons (48.0 percent vs. 38.8 percent), while nonmarried persons receive a noticeably smaller share from earnings (16.4 percent vs. 24.4 percent) (Figure 9). In addition, married persons receive a slightly larger share of their income from pensions and annuities.

Gender—Elderly women derived a greater share of their income from Social Security

Figure 9
DISTRIBUTION OF THE OLDER POPULATION'S INCOME, PERSONS AGE 65 AND OVER, BY MARTIAL STATUS, 2002



Source: EBRI estimates from the March 2003 Current Population Survey.

Figure 10
DISTRIBUTION OF THE OLDER POPULATION'S AVERAGE ANNUAL INCOME, BY SOURCE AND GENDER, 2002

	Males		Females	
	Income	Percentage	Income	Percentage
Total Income	\$28,650	100%	\$15,503	100%
Social Security	10,400	36.3	7,911	51.0
Pensions and Annuities	6,690	23.4	2,459	15.9
Income from Assets	3,481	12.2	2,560	16.5
Earnings	7,446	26.0	2,250	14.5
Other ^a	633	2.2	322	2.1

Source: Employee Benefit Research Institute tabulations of data from the March 2003 Current Population Survey.

^a Includes public assistance, Supplemental Security Income, unemployment compensation, workers' compensation, veterans' benefits, nonpension survivors' benefits, nonpension disability benefits, educational assistance, child support, alimony, regular financial assistance from friends or relatives not living in the individual's household, and other sources of income.

and assets than men in 2002. Social Security accounted for 51.0 percent of elderly women's income, compared with 36.3 percent of elderly men's income (Figure 10). Income from assets accounted for 16.5 percent of elderly women's income, compared with 12.2 percent of elderly men's. By comparison, elderly men derived a larger share of their income from employment-based sources, including pensions and annuities and earnings, than elderly women. In 2002, pensions and annuities accounted for 23.4 percent of elderly men's income, compared with 15.9 percent of elderly women's. Income from earnings accounted for 26.0 percent of the elderly men's income, compared with 14.5 percent of elderly women's.

Considerations

These data may understate the role that employment-based retirement plans play in the income of the older population. One shortcoming of the Current Population Survey is that income generated from lump-sum distributions paid out by pension plans on job change may not be accurately accounted for in the data. Individuals who received a lump-sum distribution may not report it as pension income, but rather as income from assets. However, these pension distributions, if preserved, generate income in retirement. Therefore, the reported figure for income from pensions and annuities may be understated. For the same

reason, income from assets may be overstated.

For individuals in the highest-income group, earnings represent a significant portion of retirement income. Since 1974, earnings have accounted for more than one-fifth of their income. This indicates that, for the elderly in the highest income brackets, turning 65 does not mean that they have left the labor force. Furthermore, many individuals will say they are retired, meaning they retired from career employment, but have not left the labor force.

While the percentage of workers participating in a pension plan increased from 1995 to 2000, the data showing the percentage of income coming from pensions and annuities may not increase. There are two reasons for this. First, as more and more workers participate in defined contribution retirement plans, the concern mentioned above that defined contribution assets may be considered as income from assets rather than pension income will be exacerbated.² Second, since defined contribution plans allow pre-retirement lump-sum distributions, the preservation of retirement plan assets will become increasingly important for future generations of the elderly. If these assets are not preserved, more individuals will likely need to work in old age to make up the retirement plan assets they cashed out before retirement.

Endnotes

¹ The midpoint, 50 percent above and 50 percent below.

² For a discussion of the growing importance of assets from retirement plans not payable as annuities for future retirees, see Jack VanDerhei and Craig Copeland, "The Changing Face of Private Retirement Plans," *EBRI Issue Brief* no. 232 (Employee Benefit Research Institute, April 2001).

Washington Update

By Jim Jaffe, EBRI

Cash Balance Guidance Delayed

Pending regulations on the conversion of defined benefit plans into cash balance plans have become a victim of policy triage, as Congress attempts to focus on priority issues during the 2003 session's final weeks. In this instance, the Bush administration bowed to pressure from both houses of Congress not to act on trying to clarify the issue, which involves how to convert DB plans to cash balance plans without creating age discrimination problems. The administration had promised regulations aimed at giving plan sponsors legal guidance, but the House voted to block any regulatory action that might ease the path for more conversions and the Senate later concurred.

Regulations have been promised for months, but continued resistance from Congress, coupled with court decisions (under appeal) on the issue, convinced the Treasury Department to delay action until there was a clearer view of what Congress wants to do. But getting an answer to that question won't be easy: A significant legislative coalition in Congress wants protection for older employees that goes substantially beyond what employers have proposed in the past. Moving in that direction could leave them open to complaints from younger employees who see such policies as age bias against them.

Pension, Medicare Reforms Move Slowly

During the push for adjournment this year, Congress faced two major issues of interest to the benefits community—creation of a Medicare prescription drug benefit and setting a new pension discount rate. The first generated substantial public attention; the second very little. But each issue generated controversy. Failure to act on the pension issue could create major financial discomfort.

Medicare Drug Plan Creates Tensions—President Bush would like a Medicare drug benefit enacted by the end of the year, but a congressional conference committee trying to meld bills passed in the House and Senate encountered tough slogging in creating a plan that would stay within the planned \$400 billion cost during the first decade of operation.

The House passed legislation by a party-line vote, and House conservatives are generally more interested in introducing private-sector competition for Medicare than in subsidizing prescription drug costs. But bipartisan backers of drug benefits in the Senate see competition as a deal breaker. Their fear is that healthier beneficiaries would quickly migrate to more attractive private plans, thereby creating severe adverse selection for the existing government program, perhaps ultimately tipping it into a death spiral.

Also controversial was a proposal, generally supported by Republicans, which would create a

new income-based premium for Medicare Part B, which pays for outpatient services. Many Democrats think requiring a minority of rich beneficiaries to pay more would ultimately undermine public support for the program.

And there was disagreement among seniors who could benefit from such a program about whether it was attractive enough to fight for. The program would require additional premium payments of several hundred dollars annually, yet still require some beneficiaries to pay thousands of dollars for the drugs they need. Special aid would be provided to low-income beneficiaries.

Several deadlines for action were missed, and it wasn't beyond possibility that Congress would delay final action on this issue until 2004.

Temporary Pension Discount Rate Sought—In years past, the interest rate that could be imputed to future pension fund earnings was based on the rate for 30-year Treasury bonds. But the government stopped issuing such long-term paper a few years ago, creating the need for a new benchmark. A two-year temporary fix, which is derived from the long-bond rate, expires at the end of this year. Failure to deal with the issue would force a return to the old law and could require pension funds to boost their assets by billions of dollars—an outcome no one advocates.

The Senate Finance Committee endorsed a comprehensive reform package that tracked a yield

curve—which basically matches assets to liabilities—proposed by the Bush administration. That approach generated substantial opposition from the pension community, which argued it was too complex to be quickly implemented. But the Senate Health, Education, Labor, and Pensions Committee in late October embraced the use of a corporate bond index for three years.

That's the direction the House was moving in, overwhelmingly approving a measure that would set a temporary corporate-bond-yield-based benchmark that would be effective for the next two years, thereby allowing added time to agree on a more comprehensive proposal. Enactment of the House plan would reduce required pension reserves by billions.

At this writing (early November), it was unclear which approach would prevail.

EBRI in Focus

EBRI Education on the Road

Presentations and comments by EBRI President Dallas Salisbury in November included:

- The Council on Health Care Economics and Policy in Washington, DC, a conference on health insurance.
- The Commonwealth Fund on the Future of Health Insurance, meetings in Washington, DC.
- A speech to the Missouri Hospital Association on where and how Americans will get their health insurance in the future, in Osage Beach, MO.
- A speech to International Longevity Center's 4th Annual Age Boom Academy on "Productive Engagement: Structures of the U.S. Aging Workforce," in New York.

Also, EBRI Health Research Analyst Rachel Christensen Sethi moderated a scientific session at the 131st Annual Meeting of the American Public Health Association in San Francisco. The session was entitled, "Communities and Community Agencies Working Together to Improve Health Care." The APHA annual meeting is the primary professional and scientific conference of the U.S. public health community, and was attended this year by more than 13,000 public health professionals.

ASEC Staff in P&I Contest Judging

Cheri Meyer, program director for the EBRI-ERF American Savings Education Council program (ASEC), was one of the judges in *Pensions & Investments* annual conference in Chicago. *P&I* sponsors a contest each year to highlight the best retirement plan participant education initiatives, and uses an outside panel of judges to select winning entries.

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.]

Employee Benefits

Leimberg, Stephan R., and John J. McFadden. *The Tools & Techniques of Employee Benefit and Retirement Planning*. 8th Edition. \$52.95. The National Underwriter Company, Orders Department MP, P.O. Box 14448, Cincinnati, OH 45250-0448, (800) 543-0874, fax: (800) 874-1916.

Martocchio, Joseph J. *Employee Benefits: A Primer for Human Resource Professionals*. \$65.63. McGraw-Hill Companies, P.O. Box 182604, Columbus, OH 43272-3031, (800) 262-4729.

Mitchell, Olivia S., et al. *Benefits for the Workplace of the Future*. \$49.95. University of Pennsylvania Press, Hopkins Fulfillment Services, P.O. Box 50370, Baltimore, MD 21211, (800) 537-5487, fax: (410) 516-6998.

Society for Human Resource Management. *SHRM/SHRM Foundation 2003 Benefits Survey*. \$99.95;

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

Health Care

Brent, Robert J. *Cost-Benefit Analysis and Health Care Evaluations*. \$110. Edward Elgar Publishing Inc., P.O. Box 574, Williston, VT 05495, (800) 390-3149, fax: (802) 864-7626, e-mail: eep.orders@AIDCVT.com.

Families USA Foundation. *Out-of-Bounds: Rising Prescription Drug Prices for Seniors*. \$15. Families USA Foundation, 1334 G St., NW, 3rd Floor, Washington, DC 20005, (202) 628-3030.

Gordon, Colin. *Dead on Arrival: The Politics of Health Care in Twentieth-Century America*. \$19.95. Princeton University Press, c/o California/Princeton Fulfillment Services, Inc., 1445 Lower Ferry Rd., Ewing, NJ 08618, (800) 777-4726.

Halvorson, George C., and George J. Isham. *Epidemic of Care: A Call for Safer, Better, and More Accountable Health Care*. \$30. Jossey-Bass Publishers, 350 Sansome St., Fifth Floor, San Francisco, CA 94104, (800) 956-7739.

Harker, Carlton. *Self-Funding of Health Care Benefits*. 5th edition. IFEBP members, \$125; nonmembers, \$160 + 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.

Institute of Medicine. *Committee on the Consequences of Uninsurance. Hidden Costs, Value Lost: Uninsurance in America*. \$27; \$21.60 at www.nap.edu. The National Academies Press, 2101 Constitution Ave., NW, Lockbox 285, Washington, DC 20055, (800) 624-6242 or (202) 334-3207, fax: (202) 334-2793.

Reece, Richard L. *A Managed Care Memoir: A Physician's Whistle-Stop Journey, 1983-2003*. \$19.95. Infinity Publishing, 519 W. Lancaster Ave., Haverford, PA 19041, (877) 289-2665.

Rice, Thomas. *The Economics of Health Reconsidered*. \$55. Health Administration Press, ACHE/HAP Order Fulfillment Center, P.O. Box 75145, Baltimore, MD 21275-5145, (301) 362-6905, fax: (301) 206-9789, www.ache.org/hap.cfm.

Teitelbaum, Fred, et al. *2002 Express Scripts Drug Trend Report*. \$150. Express Scripts, Inc., 13900 Riverport Dr., Maryland Heights, MO 63043, (800) 332-5455, (314) 770-1666; free at www.express-scripts.com.

U.S. General Accounting Office. *Military Retiree Health Benefits: Enrollment Low in Federal*

Employee Health Plans Under DOD Demonstration. Order from GAO.

35th St., 5th Floor, New York, NY 10001-2299, (212) 244-0360, fax: (212) 564-0465.

and Thrift Savings Plan Accountability. Order from GAO.

U.S. PIRG Education Fund. Paying the Price: A 19-State Survey of the High Cost of Prescription Drugs. Free. U.S. PIRG, 218 D St., S.E., Washington, DC 20003, (202) 546-9707, www.uspirg.org.

Human Resource Management

Mercer Human Resource Consulting. Transforming HR for Business Results: A Study of US Organizations. Free at www.mercerhr.com/hrtransformation.

Pension Plans/Retirement

Franz, Steven J., et al. 401(k) Answer Book. \$195. Panel Publishers, 7201 McKinney Circle, P.O. Box 990, Frederick, MD 21705-9782, (800) 638-8437.

Hewitt Associates. How Well Are Employees Saving and Investing in 401(k) Plans: 2002 Hewitt Universe Benchmarks. \$350. Hewitt Associates LLC, Attn: Publications Desk, 100 Half Day Rd., Lincolnshire, IL 60069, (847) 295-5000, infodesk@hewitt.com, was.hewitt.com/hewitt.

Institute of Management & Administration, Inc. Managing 401(k) Plans: 2003 Yearbook. Print + electronic copy, \$224.95; electronic only, \$219. Institute of Management and Administration, Subscription Department, 29 West

Knox, Melanie N. Aska, and Joan Gucciardi. Pension Distribution Answer Book. \$225. Panel Publishers, 7201 McKinney Circle, P.O. Box 990, Frederick, MD 21705-9782, (800) 638-8437.

Lee, Sunhwa, and Lois Shaw. Beyond 50: A View of Economic Security in the States. Free. AARP, 601 E St., NW, Washington, DC 20049, (202) 434-2277.

Lee, Sunhwa, and Lois Shaw. Gender and Economic Security in Retirement. \$15. Institute for Women's Policy Research, 1707 L St., Suite 750, Washington, DC 20036, (202) 785-5100, fax: (202) 833-4362.

Otter, Dan, and Scott Dauenhauer. The 403(b) Wise Guide. \$12.95. International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 68-9953, Milwaukee, WI 53226-9953, (888) 33-IFEBCP, fax: (414) 786-8670, e-mail: books@ifebp.org.

U.S. Congress. House Committee on Education and the Workforce. The Pension Security Act: New Pension Protections to Safeguard the Retirement Savings of American Workers. Order from GPO.

U.S. General Accounting Office. Federal Pensions: DOL Oversight

Work

Sicker, Martin. The Political Economy of Work in the 21st Century: Implications for an Aging American Workforce. \$62.95. Quorum Books, 88 Post Road West, P.O. Box 5007, Westport, CT 06881-5007, (203) 226-3571, fax: (203) 222-1502.

Work and Family

Guglielmino, Heidi Ames. Alliance for Work-Life Progress and Work/Life Today Industry Survey: Spring 2003: Summary of Results. \$39.99. Work/Life Today, 7300 Baylor Ave., Suite G, College Park, MD 20740, (301) 345-9122, www.worklifetoday.com.

Internet Documents

2003 State Small Business Profiles
www.sba.gov/advo/stats/profiles/

Health Pulse of America survey
www.sunysb.edu/surveys/HPAAug03.htm

Is Lack of Coverage a Short- or Long-Term Condition?
www.kff.org/content/2003/4122/

National Small Business Poll: Compensating Employees
www.nfib.com/PDFs/sbpoll/SBPoll60603.pdf

The Outlook for Pension Contributions and Profits in the U.S.
www.bc.edu/centers/crr/papers/wp_2003-13.pdf

Pension Plan Turnover Study Phase 1 Report
www.soa.org/research/pension_turnover.html

Projected Retirement Adequacy of Workers Age 50 to 61
www.pasca.org/data/retireAdeq/study2.pdf

Public Fund Survey
www.publicfundsurvey.org/

Retirement Plan Coverage of Baby Boomers and Retired Workers
research.aarp.org/econ/inb74_98sipp.html

State Differences in the Cost of Job-Related Health Insurance – 2000
www.meps.ahrq.gov/papers/st20/stat20.htm

Job Stress Sites

The American Institute of Stress
www.stress.org/job.htm

Families and Work Institute
www.familiesandwork.org/

Job Stress Help
www.jobstresshelp.com/

Job Stress Network
www.workhealth.org/

Loretta LaRoche & Company
www.stressed.com/

National Institute for Occupational Safety and Health
www.cdc.gov/niosh/stresshp.html

Stress Directions
www.stressdirections.com/

Stress Less, Inc.
www.stress-less.com/

Work & Family Connection
www.workfamily.com/

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