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Pension Participation: February 2001

by Craig Copeland, EBRI

Introduction

As members of the post-World War II baby-boom generation reach their retirement years, a growing concern has emerged over the income these individuals can expect during their retirement, in particular pension income. One issue sparking this concern is that the Social Security and Medicare programs are projected to experience a significant financial shortfall, potentially leading to benefit cuts in these programs.¹ Furthermore, the decreasing percentage of workers participating in defined benefit annuity-only plans and the growth of participants in hybrid defined benefit and defined contribution plans has also raised issues, since the payment of lump-sum distributions requires the individual to make numerous decisions not required by owning an annuity. For example, the potential for a retiree to outlive his or her assets has become more of a function of individual decision-making.² Thus, there will be both winners and losers in the challenge to make retirement funds last a lifetime. This article examines data on pension participation and the reasons why some wage and salary workers do not

participate in pension plans (e.g., by choice, a plan is not offered, or they are not eligible to participate).

Data

The February 2001 Contingent Worker Supplement to the U.S. Census Bureau's Current Population Survey (CPS), along with the 1995, 1997, and 1999 surveys, are used to determine pension participation for wage and salary workers ages 21–64. This survey asks interviewees about their work status during February of the year of the survey. If respondents are determined to have employers, they are asked if their employer sponsors a pension or a retirement plan.³ If the employer sponsors a plan, the workers are asked if they are participants in the plan. If they are not participants, they are then asked a follow-up question concerning why they did not participate. Therefore, pension participation, as well as the reasons for nonparticipation, can be determined for wage and salary workers during February 1995, 1997, 1999, and 2001.⁴

Overall Trends

In February 2001, 67.8 percent of wage and salary workers ages 21–64 worked for an employer that sponsored a pension plan, up 4.5 percentage points from February 1995, and 54.8 percent participated in a pension plan, up 3.8 percentage points from Febru-

ary 1995 (table 1). Along with the increase in workers employed by sponsoring employers and participating in a plan, the percentage of workers who said they did not participate because of ineligibility decreased from 63.3 percent to 56.6 percent among those working for an employer that sponsored a plan. Thus, although pension participation increased from February 1995 to February 2001, the percentage of workers choosing not to participate also increased (up 6 percentage points, from 25.1 percent in February 1995 to 31.1 percent in 2001). This resulted in a slight decrease in participation rates from February 1995 to February 2001 under both participation rate measures calculated in table 1.^{5, 6, 7, 8}

Demographic Trends

Gender—The percentage of both male and female wage and salary workers participating in a pension plan increased from 1995 to 2001 (table 2). However, the percentage of males participating in a pension plan remained higher than that of females, although the two genders had virtually identical rates of working for an employer that sponsored a plan. An explanation for this result is that more females who were working for an employer that sponsors a plan were not eligible to participate in the plan. In 2001, 59.7 percent of females who worked for an employer sponsoring a plan were not eligible, compared with 52.6 percent of males.

Table 1
Percentage of Wage and Salary Workers Ages 21–64 Who Participate in a Pension Plan, and Reasons for Not Participating, February 1995–2001

	1995	1997	1999	2001
	(millions)			
Wage and Salary Workers	99.1	102.2	106.6	109.6
Participates in a Pension Plan	50.6	53.1	57.1	60.1
	(percentage)			
Works for an Employer Sponsoring	63.3%	64.6%	66.6%	67.8%
Participates in a Plan	51.0	52.0	53.5	54.8
Of Those Working for an Employer Sponsoring:				
Why Not Covered?				
Chose not to participate	25.1	25.0	27.5	31.1
Not eligible	63.3	61.7	60.2	56.6
Other ^a	11.6	13.3	12.4	12.4
Participation Rate ^b				
Excluding "other" as eligible	94.3	94.3	93.7	93.2
Including "other" as eligible	91.9	91.5	91.2	90.7

Source: Employee Benefit Research Institute estimates from the February 1995, 1997, 1999, and 2001 Current Population Surveys.

^a"Other" includes no response, do not know, and other specific reasons not coded separately.

^bParticipation rate is the percentage of workers who are eligible to participate who do so.

Race/Ethnicity—White Americans were significantly more likely to participate in a pension plan than all of the other race/ethnicity groups, and this has been the case since at least 1995. The smaller percentage of Hispanics who participate in a plan can largely be attributed to their lower likelihood—relative to whites—of working for employers that sponsor a plan. In 2001, 71.7 percent of whites worked for an employer sponsoring a plan, compared with 47.2 percent of Hispanics. While whites and those falling in the "other" category experienced significant growth in the percentage participating in a plan, both Hispanics and blacks had much smaller increases in these percentages. A leading factor in this seems to be an increase in the percentage of Hispanics and blacks who choose not to participate. In 1995, 32.4 percent of blacks and 32.2 percent of Hispanics who worked for an employer that sponsored a plan and did not participate in the plan reported that they

had chosen not to do so. By 2001, these percentages had increased to 38.2 percent for blacks and 39.8 percent for Hispanics.

Age—Younger working Americans (ages 21–34) had faster increases in participation than did older working Americans (ages 35–64). However, the percentage of workers ages 45–54 who participated in a plan was more than twice the percentage of workers ages 21–24 (65.4 percent compared with 27.3 percent). The percentage of those working for an employer that sponsored a plan and did not participate by choice was virtually equal among those in the middle three age categories, while the two extreme age categories had lower percentages of those choosing not to participate. Workers in the youngest age category (ages 21–24) not only had the lowest percentage working for an employer sponsoring a plan but also had the highest percentage of those ineligible for a plan when working for an employer that sponsored a plan.

Work Status—The percentage of both full-time and part-time workers who participated in a plan increased from 1995 to 2001. However, 59.2 percent of full-time workers participated in a plan in 2001, while 37.2 percent of part-time workers did so. Among those who worked for an employer sponsoring a plan, full-time employees were more likely to have chosen not to participate in a plan than were part-time workers. For example, in 2001, 36.6 percent of full-time workers who worked for an employer sponsoring a plan and did not participate in the plan chose not to do so, compared with 19.9 percent of part-time workers.

Sector—A significantly larger percentage of public-sector workers than private-sector workers participated in a pension plan in 2001 (81.6 percent compared with 49.4 percent). However, the percentage of private-sector workers participating in a plan increased from 44.5 percent in 1995 to 49.4 percent in 2001, while the percentage of public-sector workers increased from 80.1 percent to 81.6 percent. The percentage of private-sector workers who worked for an employer that sponsored a plan and did not participate by choice increased from 1995 to 2001. In contrast, for public-sector workers, this percentage remained virtually unchanged during that time.

Conclusion

The percentage of wage and salary

workers ages 21–64 participating in a pension plan increased from February 1995 to February 2001. Most of this growth is attributable to

private-sector workers. However, there was also an increase in the percentage of workers who were working for an employer that

Table 2
Percentage of Wage and Salary Workers Ages 21–64 Who Participate in a Pension Plan, and Reasons for Not Participating, by Demographic Characteristics, February 1995–2001

Characteristic	1995	1997	1999	2001
Gender				
Male	51.9 (mil)	53.4 (mil)	55.4 (mil)	56.8 (mil)
Works for an Employer Sponsoring Participates in a Plan	63.3%	64.7%	66.9%	67.6%
Of Those Working for an Employer Sponsoring:	53.1	54.3	56.0	56.3
Why Not Participating?				
Chose not to participate	27.5	27.8	28.7	33.2
Not eligible	59.1	57.6	57.4	52.6
Other ^a	13.4	14.7	13.9	14.2
Female	47.1 (mil)	48.8 (mil)	51.1 (mil)	52.8 (mil)
Works for an Employer Sponsoring Participates in a Plan	63.4%	64.5%	66.2%	67.9%
Of Those Working for an Employer Sponsoring:	48.8	49.4	50.9	53.2
Why Not Participating?				
Chose not to participate	23.3	23.0	26.6	29.4
Not eligible	66.4	64.7	62.2	59.7
Other ^a	10.3	12.2	11.2	10.9
Race/Ethnicity				
White	75.8 (mil)	76.2 (mil)	78.0 (mil)	79.0 (mil)
Works for an Employer Sponsoring Participates in a Plan	66.0%	67.6%	69.7%	71.7%
Of Those Working for an Employer Sponsoring:	53.7	55.1	57.1	59.0
Why Not Participating?				
Chose not to participate	23.3	22.9	26.8	28.5
Not eligible	64.6	64.2	61.3	59.6
Other ^a	12.1	12.9	11.9	11.9
Black	11.4 (mil)	11.6 (mil)	12.5 (mil)	13.0 (mil)
Works for an Employer Sponsoring Participates in a Plan	63.8%	64.5%	67.0%	65.8%
Of Those Working for an Employer Sponsoring:	50.3	51.4	51.4	51.4
Why Not Participating?				
Chose not to participate	32.4	32.8	29.0	38.2
Not eligible	58.0	56.1	59.5	50.1
Other ^a	9.7	11.1	11.6	11.7
Hispanic	8.9 (mil)	10.1 (mil)	11.4 (mil)	12.4 (mil)
Works for an Employer Sponsoring Participates in a Plan	42.5%	44.1%	47.2%	47.2%
Of Those Working for an Employer Sponsoring:	32.5	32.4	35.1	34.9
Why Not Participating?				
Chose not to participate	32.2	30.7	30.9	39.8
Not eligible	57.0	52.9	53.8	45.1
Other ^a	10.8	16.4	15.2	15.1
Other	3.1 (mil)	4.2 (mil)	4.7 (mil)	5.2 (mil)
Works for an Employer Sponsoring Participates in a Plan	57.2%	58.3%	59.8%	62.0%
Of Those Working for an Employer Sponsoring:	42.8	44.3	44.5	48.0
Why Not Participating?				
Chose not to participate	25.0	30.2	27.1	33.4
Not eligible	65.7	51.5	57.7	51.1
Other ^a	9.3	18.2	15.2	15.5

(continued)

Table 2 (continued)

Characteristic	1995	1997	1999	2001
Age	(millions)			
21–24	10.1 (mil)	9.4 (mil)	10.1 (mil)	10.6 (mil)
Works for an Employer Sponsoring	45.8%	47.1%	50.2%	52.9%
Participates in a Plan	21.7	21.2	23.7	27.3
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	22.4	20.6	21.3	25.8
Not eligible	68.2	69.3	68.5	65.1
Other ³	9.3	10.1	10.2	9.2
25–34	29.6 (mil)	29.3 (mil)	28.8 (mil)	28.3 (mil)
Works for an Employer Sponsoring	59.7%	61.4%	63.6%	65.1%
Participates in a Plan	44.9	46.2	47.9	49.1
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	27.8	26.5	29.4	31.8
Not eligible	60.9	59.2	59.4	54.6
Other ³	11.4	14.3	11.2	13.7
35–44	29.8 (mil)	31.1 (mil)	32.4 (mil)	32.9 (mil)
Works for an Employer Sponsoring	67.1%	67.9%	69.7%	70.1%
Participates in a Plan	57.3	57.3	58.5	58.9
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	24.7	25.7	29.4	33.3
Not eligible	63.5	60.6	57.4	54.3
Other ³	11.8	13.8	13.2	12.4
45–54	20.3 (mil)	22.5 (mil)	24.5 (mil)	26.1 (mil)
Works for an Employer Sponsoring	70.7%	70.5%	72.0%	73.8%
Participates in a Plan	62.9	62.4	63.5	65.4
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	24.4	24.9	28.6	33.2
Not eligible	60.9	60.2	57.3	53.8
Other ³	14.7	14.9	14.1	13.0
55–64	9.3 (mil)	9.8 (mil)	10.8 (mil)	11.7 (mil)
Works for an Employer Sponsoring	66.0%	65.7%	68.1%	67.8%
Participates in a Plan	56.9	57.9	59.2	58.7
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	21.5	28.3	26.2	29.4
Not eligible	65.7	61.0	57.1	56.9
Other ³	12.9	10.8	16.7	13.7
Work Status				
Full-Time	76.6 (mil)	80.4 (mil)	85.2 (mil)	87.8 (mil)
Works for an Employer Sponsoring	66.6%	67.7%	69.4%	70.3%
Participates in a Plan	56.3	57.1	58.4	59.2
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	32.2	30.2	33.0	36.6
Not eligible	55.5	55.4	53.9	50.2
Other ³	12.4	14.4	13.1	13.2
Part-Time	22.5 (mil)	21.8 (mil)	21.4 (mil)	21.8 (mil)
Works for an Employer Sponsoring	52.4	53.1	55.2	57.5
Participates in a Plan	33.0	33.0	34.1	37.2
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	13.1	15.7	16.8	19.9
Not eligible	76.7	73.0	72.4	69.4
Other ³	10.3	11.3	10.8	10.7

(continued)

sponsored a plan and did not participate because they chose not to participate. While increases in the percentage of workers participating in a pension plan were experienced across each demographic group examined, among some groups—in particular, minorities—the percentage of workers participating in a plan did not increase as much as the overall trend. Thus, the differences in the percentages of workers participating in a plan persisted, and in some cases widened, among certain demographic groups.

Endnotes

¹ For more information on Social Security reform, see Craig Copeland, Jack VanDerhei, and Dallas Salisbury, “Social Security Reform: Evaluating Current Proposals,” *EBRI Issue Brief* no. 210 (Employee Benefit Research Institute, June 1999).

² See Jack VanDerhei and Craig Copeland, “The Changing Face of Private Retirement Plans,” *EBRI Issue Brief* no. 232 (Employee Benefit Research Institute, April 2001) for further information on this issue.

³ The question in the survey asks whether their employer sponsors a pension or retirement plan. For simplification, the remainder of this article will use the term pension plan to include both.

⁴ One limitation of the data set is that it does not differentiate between pension plan type (i.e., defined benefit versus defined contribution). Participants are known to be in a plan but the type of plan is not known.

⁵ Participation rate is the percentage of *eligible* workers (meaning that their employer sponsors a plan and the workers meet the criteria—such as tenure and hours of work—to participate in the plan) who do participate in a sponsored plan.

Table 2 (continued)

Characteristic	1995	1997	1999	2001
Sector				
Private	81.0 (mil)	84.5 (mil)	88.0 (mil)	91.0 (mil)
Works for an Employer Sponsoring	57.1%	58.9%	61.4%	62.9%
Participates in a Plan	44.5	45.9	48.0	49.4
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	26.9	26.9	30.1	33.3
Not eligible	61.8	60.6	58.0	54.2
Other ^a	11.3	12.6	11.9	12.6
Public	18.1 (mil)	17.7 (mil)	18.5 (mil)	18.6 (mil)
Works for an Employer Sponsoring	91.4%	91.7%	91.3%	91.8%
Participates in a Plan	80.1	81.1	79.8	81.6
Of Those Working for an Employer Sponsoring:				
Why Not Participating?				
Chose not to participate	15.9	13.9	12.3	16.6
Not eligible	71.1	68.6	72.6	72.4
Other ^a	13.0	17.4	15.1	11.0

Source: Employee Benefit Research Institute estimates from the February 1995, 1997, 1999, and 2001 Current Population Surveys.

^a“Other” includes no response, do not know, and other specific reasons not coded separately.

⁶ Respondents were allowed to give various reasons why they were not eligible or chose not to participate. Some respondents refused to answer the question, did not know the answer, or gave some reason that was not coded specifically other than “other.” This “other” category is then used to determine the different measures of participation rates by either including those in the “other” category as eligible or ineligible to participate in the sponsored plan.

⁷ The decline in the participation rates can be at least partially attributed to the continuing shift to defined contribution plans, where workers typically have to elect to participate, from defined benefit plans, where workers are automatically enrolled upon meeting the eligibility requirements. Furthermore, more workers likely became eligible who were

not previously eligible to participate, and are the workers least likely to participate, e.g., part-time, young workers. From the 1998 Survey of Consumer Finances, the percentage of family heads eligible to participate in a defined contribution plan who participated was 77.3 percent in 1998. See Craig Copeland and Jack VanDerhei, “Personal Account Retirement Plans: An Analysis of the Survey of Consumer Finances,” *EBRI Issue Brief* no. 223 (Employee Benefit Research Institute, July 2000) for family head participation rates in defined contribution plans across various demographic information.

⁸ For simplification when referring to dates in the remainder of this article, 2001 actually refers just to February of that year, etc.

Income of the Elderly Population

by Ken McDonnell, EBRI

The U.S. retirement income system—including employment-based retirement plans, Social Security, individual saving, and post-retirement employment—can in part be assessed 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 2001 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 \$10,646 (in constant 2000\$) in 1974 to \$13,213 (in 2000\$) in 1989 (chart 1). It dropped to \$12,519 in 1992 but rebounded to \$13,561 (also in 2000\$) in 2000. The average income of the elderly followed a similar pattern over this period.

Income Sources

In 2000, Social Security was the largest source of income for those currently age 65 and older, accounting for 41.3 percent of their income on average (chart 2). Pension and annuity income was 19.1 percent, income from assets 17.8 percent, and earnings 19.7 percent.

Social Security—The portion of the elderly’s income coming from Social Security (Old-Age Survivors and Disability Insurance, or OASDI) fell during the

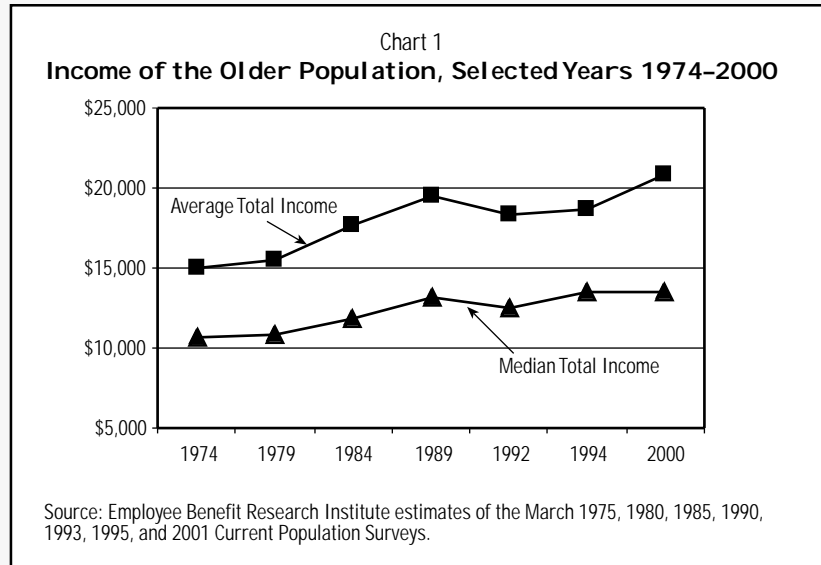
decade of 1979–1989 (from 42.7 percent to 38.6 percent); increased to 44.4 percent in 1994; then began to decline, falling to 40.1 percent in 1999. In 2000, Social Security increased to 41.3 percent of the elderly’s income (table 1).

Pensions and Annuities—The portion of the elderly’s income provided by pensions and annuities increased from 14.0 percent in 1974 to 20.0 percent in 1994. Income provided by pensions and annuities fell from 19.9 percent in 1998 to 19.1 percent in 2000.

Assets—Income from assets fell from a peak of 28.2 percent in 1984 to 17.6 percent in 1994. From 1994 to 2000, the pattern of income from assets followed a bell curve, going from 17.6 percent in 1994 to a peak of

20.4 percent in 1997 and 1998, and then declining again to 17.8 percent in 2000.

Earnings—The portion of the elderly’s income coming from earnings fell from 21.3 percent in 1974 to 13.3 percent in 1984. From 1997 to 2000, earnings accounted for a growing share of the elderly’s income, increasing from 16.6 percent to 19.7 percent.



Income Composition

Income composition varies across income groups. In 2000, the lowest income quintile received 89.3 percent of its income

from Social Security, and the highest-income quintile received 22.6 percent of its income from Social Security (table 1). 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 2000, the lowest-income quintile received 1.9 percent of its income from pensions and annuities,

5.1 percent from assets, and 0.4 percent from earnings. By comparison, the highest-income quintile received 23.2 percent from pensions and annuities, 23.1 percent from income from assets, and 29.1 percent from earnings.

Marital Status—Nonmarried persons received a larger share of their income from Social Security

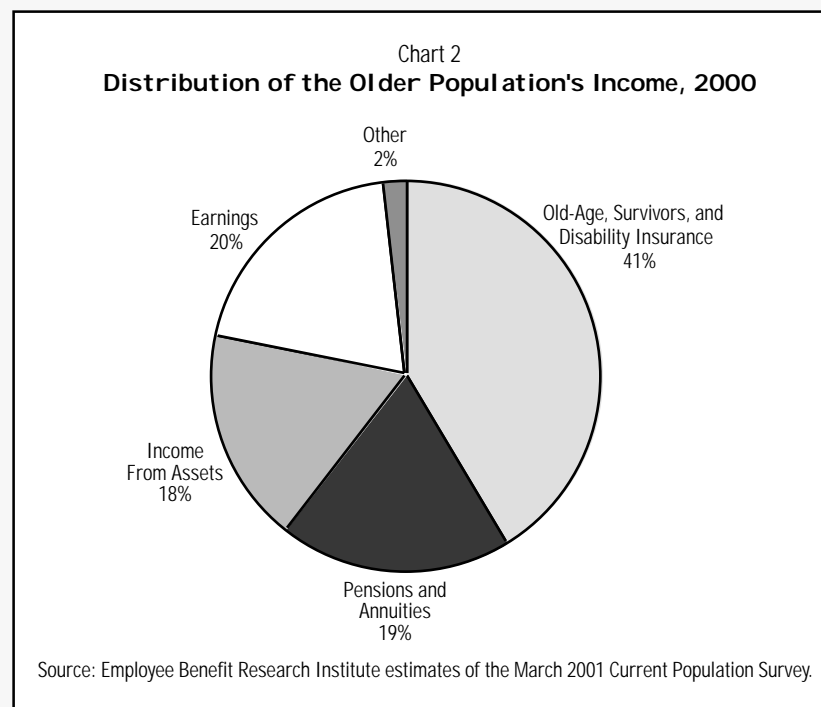


Table 1
Distribution of the Older Population's Average Income, by Income Source

	(by quintile)					
	Total	Lowest (\$6,840 or less in 2000)	2 (\$6,841– \$10,800 in 2000)	3 (\$10,801– \$16,488 in 2000)	4 (\$16,488– \$27,540 in 2000)	Highest (\$27,541 or more in 2000)
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
1994	44.4	84.8	82.4	74.5	52.4	23.2
1995	42.9	87.6	85.1	74.9	51.6	21.2
1996	42.8	87.1	85.7	74.8	52.2	21.4
1997	41.4	87.9	88.9	75.5	50.5	19.9
1998	40.3	89.8	86.7	73.8	49.4	19.1
1999	40.1	91.4	88.0	79.6	56.4	20.7
2000	41.3	89.3	89.0	81.4	57.6	22.6
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
1994	20.0	1.8	3.5	9.0	21.6	26.7
1995	19.0	2.2	3.5	8.2	21.8	24.5
1996	19.6	2.2	3.4	9.1	22.2	25.1
1997	19.6	1.7	3.9	9.2	22.7	24.5
1998	19.9	2.4	3.4	9.8	22.8	24.7
1999	19.4	2.4	3.3	7.4	20.0	23.8
2000	19.1	1.9	2.8	6.8	20.7	23.2
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
1994	17.6	6.3	7.2	10.6	14.8	23.3
1995	18.2	6.2	8.1	11.6	16.1	23.3
1996	18.1	6.2	7.2	10.5	15.0	23.7
1997	20.4	5.4	7.1	10.2	15.4	27.8
1998	20.4	3.6	7.2	10.0	16.0	27.4
1999	19.8	2.8	5.7	8.6	13.9	25.9
2000	17.8	5.1	5.4	7.6	12.4	23.1
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
1994	14.9	-0.6	1.2	3.7	8.5	24.0
1995	17.6	1.7	1.6	3.5	8.2	28.6
1996	17.4	1.5	2.0	3.8	8.5	27.6
1997	16.6	1.9	1.4	3.7	8.9	25.9
1998	17.4	1.2	1.6	4.6	9.1	26.8
1999	18.7	-0.1	1.6	3.0	7.8	27.5
2000	19.7	0.4	1.6	3.0	7.1	29.1

(continued)

than married persons (47.0 percent vs. 37.7 percent in 2000), while nonmarried persons receive

a noticeably smaller share from earnings (13.9 percent vs. 23.5 percent) (chart 3). In addition, married

persons receive a slightly larger share of their income from pensions and retirement plans.

Table 1 (continued)

	Total	Lowest (\$6,840 or less in 2000)	2 (\$6,841– \$10,800 in 2000)	3 (\$10,801– \$16,488 in 2000)	4 (\$16,488– \$27,540 in 2000)	Highest (\$27,541 or more in 2000)
			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
1994	3.2	7.6	5.8	2.2	0.3	2.8
1995	2.2	2.3	1.6	1.8	2.2	2.4
1996	2.1	3.0	1.7	1.8	2.1	2.1
1997	2.0	3.0	1.7	1.4	2.6	1.9
1998	2.0	3.0	1.1	1.7	2.7	1.9
1999	2.0	3.5	1.3	1.4	1.9	2.1
2000	2.0	3.3	1.3	1.2	2.2	2.1

Source: Employee Benefit Research Institute tabulations of the March 1970, March 1975, March 1980, March 1985, March 1990, March 1995–2001 Current Population Surveys.

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

^bIn 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 65 and older in 1974 was \$10.5 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 \$9.2 billion and \$10.2 billion. Similarly, public pension income in 1974 was \$13.6 billion but is potentially overstated by between 7 percent and 18 percent, falling in the range of \$11.2 billion and \$12.6 billion. Income from "other" income sources is understated by the amount pension income is overstated.

^cIncludes pension, annuity, survivors, and disability benefits.

^dIncludes 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.

Gender—Elderly women derived a greater share of their income from Social Security and assets than men in 2000. Social Security accounted for 49.8 percent of elderly women's income, compared with 35.0 percent of elderly men's income (table 2). Income from assets accounted for 20.7 percent of elderly women's income, compared with 15.6 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 2000, pensions and annuities accounted for 21.1 per-

cent of elderly men's income, compared with 16.0 percent of elderly women's. Income from earnings accounted for 25.8 percent of the elderly men's income, com-

pared with 12.0 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 short-coming 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

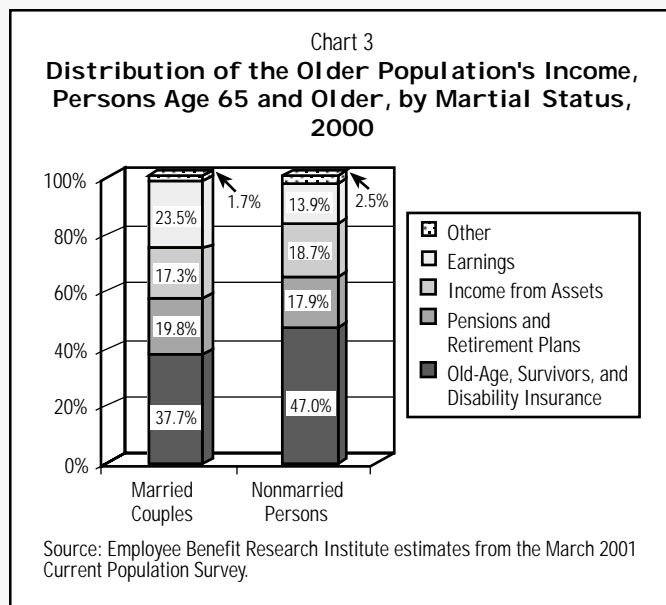


Table 2
**Distribution of the Older Population's Average Income,
 by Gender, 2000**

	Males		Females	
	Income	Percentage	Income	Percentage
Total Income	\$28,597	100.0%	\$15,197	100.0%
Social Security	10,004	35.0	7,571	49.8
Pensions and Annuities	6,043	21.1	2,426	16.0
Income from Assets	4,473	15.6	3,150	20.7
Earnings	7,389	25.8	1,831	12.0
Other ^a	688	2.4	219	1.4

Source: Employee Benefit Research Institute tabulations of data from the March 2001 Current Population Survey.

^aIncludes 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.

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 retired. 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 Teresa Turyn, EBRI

House Passes Investment Advice Bill

The House of Representatives Nov. 15 passed an "investment advice" bill (H.R. 2269) that is designed to make it easier for retirement plan sponsors to provide their participants with advice in managing their 401(k) accounts and other defined contribution assets. The bill, authored by House Education and Workforce Committee Chairman John Boehner (R-OH), would create a new exemption from prohibited transaction rules under the Employee Retirement Income Security Act (ERISA) to allow financial institutions that administer qualified employment-based defined contribution retirement plans to provide investment advice to plan participants without employers being liable for specific advice. The vote for passage was 280-144, with solid Republican backing and some Democratic support as well.

The bill passed after the House rejected an amendment by Reps. Robert Andrews (D-NJ) and Charles Rangel (D-NY) that called for additional disclosures, registration, enhanced legal remedies, and the provision of an alternate independent adviser when there is a potential conflict of interest. However, Boehner and Rep. Earl Pomeroy (D-ND) engaged in a colloquy under which Pomeroy agreed to vote in favor of the bill

Keeping On Track

Supreme Court to Review ADA "Direct Threat" Defense Case—The U.S. Supreme Court has agreed to review a U.S. Ninth Circuit Court of Appeal's ruling that disabled people who are otherwise qualified to perform the essential functions of a job can't be denied the job because they pose a threat to their own health or safety in the workplace. The appeals court concluded that the Americans With Disabilities Act's (ADA) "direct threat" defense available to employers applies only to employees who pose a direct threat to other employees, not to themselves. Business groups criticized the ruling, arguing that the decision will jeopardize workplace safety (*Echazabel v. Chevron USA Inc.*).

IRS Publishes List of M&P, Volume Submitter Sponsors Who Met Application Deadline—The Internal Revenue Service (IRS) recently published a list of those Master & Prototype (M&P) and Volume Submitter (VS) sponsors who adopted, or certified their intention of adopting, a timely submitted M&P plan or VS specimen plan by the end of the 2001 plan. The list includes the name of the M&P or VS sponsor, the file folder number or VS serial number assigned to each plan, and the plan type of each plan submitted. The list also includes the date of the GUST opinion or advisory letter for those M&P and VS plans that have been approved to date and the date of withdrawal for those applications that have been withdrawn. The list can be viewed at www.irs.ustreas.gov/bus_info/ep/mplist.html

IRS Publishes List of Frequently Asked Questions—The IRS recently listed on its Employee Plans Web site some of the most frequently asked questions regarding the determination letter process, plan terminations, plan language issues, merged plans, and multiple employer plans. These questions may be viewed at www.irs.ustreas.gov/bus_info/ep/determs.html

SSA Publishes Web Page for State and Local Government Employees—The Social Security Administration (SSA) recently published a Web site for state and local government employers that are responsible for withholding, reporting, and paying Social Security and Medicare taxes for public employees. The site lists information about how public employees are covered for Social Security and Medicare, frequently asked questions, laws and regulations, publications, who to contact in your state, and related Web links that will help you understand the Social Security and Medicare coverage and reporting requirements for public employees. The site may be viewed at www.ssa.gov/slge/

DOL Surveys Show Greater Use of FMLA Leave—The Department of Labor's (DOL) Bureau of Labor Statistics' September edition of its *Monthly Labor Review* recently released two surveys of the Family and Medical Leave Act (FMLA), revealing that, among other things, seven years after the FMLA became law: (i) more employees are taking leave for family or medical reasons; (ii) fewer report that they need leave but are unable to take it for financial reasons; (iii) many employers offer leave programs that are more generous than what is required; (iv) and most employers report no adverse effects on their daily operations. The Web site to the *Monthly Labor Review* may be viewed at www.bls.gov/opub/mlr/mlrhome.htm

with the understanding that provisions would be inserted requiring model disclosure forms, notification to participants that independent advice would be available in the case of potential conflict of interest, and the limitation of advice provided by banks to the bank trust department. The bill had cleared the House Ways and Means Committee Nov. 7 after the committee amended it

slightly to require that such disclosures be provided at least annually and also when requested by a participant and when there is a material change in the information.

Although House passage of the bill marks a significant step for the issue, Senate Democrats are expected to give the measure a cold reception. Sen. Jeff Bingaman (D-NM) has introduced another

investment advice bill (S. 1677) that would create a safe harbor for retirement plan sponsors in the designation and monitoring of investment advisers for workers managing their retirement income assets; however, Bingaman's bill would not remove any of the "prohibited transaction" restrictions that limit the ability of plan sponsors to offer investment advice. Further

action on the issue is virtually impossible this year, and prospects are uncertain—at best—for either Boehner’s or Bingaman’s approach to become law in this Congress.

Measure Easing Drug Imports Dropped From Spending Bill

House and Senate conferees approved legislation (H.R. 2330) Nov. 8 to fund the U.S. Department of Agriculture and the Food and Drug Administration (FDA), after dropping a controversial provision added earlier this year by the House that would have allowed Americans to order medicines from abroad for personal use. The provision, authored by Rep. Gil Gutknecht (R-MN), would have prevented the FDA from using funds to stop individuals from buying medicines from overseas sellers. Drug companies and the Bush administration opposed the measure, saying it would allow the sale of adulterated and counterfeit drugs that pose a safety risk to consumers.

House Amends Long-Term Care Bill

The House Oct. 30 approved legislation (H.R. 2559) that would amend the Long Term Care Security Act (LTCSA) to exempt LTC premiums from state and local taxes. The LTCSA, signed into law Sept. 19, 2000, allows federal government employees to purchase private long-term care insurance for themselves and qualified relatives at a group discount. H.R. 2559 cleared the

House by a vote of 406-1 and is expected to receive broad support in the Senate as well.

Hearing on SSN Restrictions

The House Ways and Means Subcommittee on Social Security Nov. 8 held a hearing on legislation that aims to deter “identity theft” and other criminal acts by restricting the use of Social Security numbers (SSNs). The bill (H.R. 2036), introduced by panel Chairman Clay Shaw (R-FL), seeks to prevent misuse of SSNs by barring the sale, purchase, or display to the general public of an individual’s SSN. Benefit plan sponsors have raised concerns, stating that while the prohibitions in the bill are clearly defined, the terms of the bill are not and could potentially interfere with legitimate benefit plan administration.

Barnhart New Social Security Commissioner

Jo Anne B. Barnhart was sworn in Nov. 14 as the new commissioner of the Social Security Administration. Before her appointment by President Bush, Barnhart served for more than four years as a member of the Social Security Advisory Board, an independent body created to advise the Congress on Social Security issues and policies. A former SSA employee, Barnhart worked in the Office of Family Assistance from 1981–1986, first as deputy associate commissioner and then as associate commissioner. She served as minor-

ity staff director for the Senate Committee on Governmental Affairs from 1986–1990. From 1990–1993, she served as assistant secretary for children and families at the Department of Health and Human Services, overseeing more than 65 programs, including Aid to Families with Dependent Children. Earlier in her career, she was legislative assistant and campaign manager to Sen. William Roth, Jr. (R-DE), and managed her own political and public policy consulting firm.

California Enacts Significant Domestic Partner Rights Law

The California state legislature has enacted a law that significantly expands domestic partners’ legal rights and benefits. The law gives domestic partners new rights to health benefits and exempts those benefits from state tax. It also treats domestic partners as spouses for purposes of unemployment, sick leave, inheritance, adoption, bringing lawsuits for personal injury, and making medical decisions for a domestic partner. The law applies to all registered domestic partners. Since the law’s provisions go into effect Jan. 1, 2002, employers in California may need to change certain human resource policies and procedures quickly.

An EBRI *Fact Sheet* on the issue, “Domestic Partner Benefits: Facts and Background,” is available at EBRI’s Web site, at www.ebri.org/facts/0600fact2.htm

EBRI in Focus

EBRI Education on the Road

In November, EBRI President Dallas Salisbury joined U.S. Rep. Earl Pomeroy (D-ND) in a panel discussion of future prospects for retirement income, as well as future directions for public policy related to savings and retirement income, with executives from Sustaining Member CIGNA and executives from 10 plan sponsor organizations. Salisbury also joined 30 IBM executives in Armonk, NY, for an examination of trends and developments in benefits, where he presented results of EBRI surveys and analysis and discussed their implications for the future role of employers in benefits provision.

Also in November, Professor Jack VanDerhei of Temple University and research director of the EBRI Fellows Program, completed the last of three presentations around the nation on results of the EBRI/Milbank study, *Oregon Future Retirement Income Assessment Project: Final Report*. The week of Nov. 5 he spoke in San Francisco before the Reforming States Group. The EBRI/Milbank study projects the future retirement income for Social Security, qualified plans, and individual retirement accounts for those born in 1964 and before. VanDerhei also made presentations of the study to state legislative groups in Atlanta and Phoenix.

EBRI Senior Research Associate Paul Fronstin Nov. 6 co-chaired a workshop sponsored by the

National Academy of Social Insurance, to look at the impact of the aging work force on social insurance and employment-based benefits. Participants at the workshop examined the impact of an aging work force on health spending, disability programs, and retirement income programs. Dallas Salisbury also participated in the workshop. On Nov. 8, Fronstin addressed the National Education Association's annual Retirement and Benefits Forum and Trustee Workshop in Point Clear, AL, to discuss trends in public-sector employee benefits.

EBRI Research and Education Associate Teresa Turyn presented results of the 2001 Small Employer Retirement Survey (SERS) Nov. 14 to the Advisory Committee on Tax-Exempt/Government Entities (ACT) at the Internal Revenue Service (IRS). The congressionally authorized committee is part of a U.S. Treasury initiative to examine ways to improve the newly reorganized IRS division regulating America's private and public pension plan system.

At the request of the Labor Department's Bureau of Labor Statistics, Ken McDonnell, EBRI information and member relations associate, gave a presentation to a group of 12 high-level staff from Goskomstat, the statistical agency for the Russian Federation. This program is the first phase of a program to assist the Russian Federation with measuring com-

penetration and understanding how these data are used.

Tax Simplification & Tax Policy

The CATO Institute has recently released a report on *Simplifying Federal Taxes: The Advantages of Consumption-Based Taxation* (Policy Analysis No. 416). A major focus of the report's argument about why tax reform is necessary is the constant change in tax provisions for individual retirement accounts (IRAs) and qualified retirement plans. For analysis of benefits tax policy and the implications of a move to consumption-based taxation of employee benefits, see the following EBRI publications:

- *Tax Reform: Implications for Economic Security and Employee Benefits*, an EBRI-ERF policy forum book, 1997.
- *Pension Funding & Taxation: Implications for Tomorrow*, an EBRI-ERF policy forum book, 1994.
- "Employment-Based Health Insurance: A Look at Tax Issues and Public Opinion," *EBRI Issue Brief* no. 211, July 1999.
- "Pension Tax Expenditures: Are They Worth the Cost?" *EBRI Issue Brief* no. 134, February 1993.

CHEC Policy Board Meets

The Consumer Health Education Council's Policy Board met Nov. 14 to discuss the implications of CHECs most recently completed research projects:

- “Consumer Health Care Finances and Education: Matters of Values.”
- “Health and the Bottom Line: Do Health and Health Coverage Matter to Employers? What the Evidence Shows.”

Together, these projects underscore the value of health care coverage to individuals and plan sponsors and the importance of developing new educational tools to promote the maintenance, expansion, and “take up” of coverage by businesses and individuals. These projects also provide information important to CHEC’s Robert Wood Johnson Foundation-supported inquiry into employer attitudes and into practices that support coverage growth and retention in and through the workplace.

ASEC Wins AFCPE Award

The Association for Financial Counseling and Planning Education (AFCPE), a national group comprised of members of the military, financial advisors, and educators, recently awarded ASEC the 2001 Consumer Financial Information Award for the coalition’s work in financial education. ASEC President Don Blandin joined AFCPE members at their annual conference to accept the award and to make a presentation on the national “Save for Your Future” campaign, a partnership with the Social Security Administration.

PSA Distribution Efforts Pay Off in Greater Exposure

In September 2001, the Employee Benefit Research Institute Education and Research Fund, and its American Savings Education Council affiliate, retained Goodwill Communications to distribute a reel of public service announcements (PSAs) and the half-hour primetime educational show “The Savings Game” to broadcast and cable television outlets. The campaign theme, developed as part of the multi-year program by EBRI and ASEC called Choose to Save,[®] encourages the public to increase their savings, provides information on the importance of retirement planning, and directs viewers to contact both a toll-free telephone number and the program Web site, where they can get more information. The Choose to Save[®] Web site—at www.choosetosave.org—also features a retirement savings needs estimator called the *Ballpark Estimate Worksheet*[®] and more than 125 other financial calculators (visit www.choosetosave.org/tools/fincalcs.htm). To date, Goodwill Communications has processed 109 requests from cable systems that have ordered the tapes.

Last year, a previous reel of television PSAs generated \$2.3 million worth of TV value alone, with projected broadcast TV and cable usage adding another \$2.4 million in value, for a campaign total of \$4.8 million. The Choose to Save[®] TV PSAs were also

shown on the Nashville Network, with 69 million viewers, as well as the Armed Forces TV Network, with 1 million viewers, reaching both U.S. service personnel and their families worldwide. The National Association of Broadcasters provided national distribution of the television PSAs via its closed-circuit system, which is fed to all its TV station members. Network delivery was made to the four major national broadcast networks—ABC, CBS, NBC and Fox—as well as direct delivery to 35 national cable networks that accept PSAs.

EBRI Member organizations are encouraged to consider use of the free Choose to Save[®] materials for educational purposes internally, or for clients. For more information about the Choose to Save[®] education program, visit the following Web sites: www.choosetosave.org, www.ebri.org, www.asec.org, or www.psaresearch.com/cafegallery.html Or contact Danny Devine, director of CTS, at (202) 775-6308, e-mail devine@ebri.org

New Publications & Internet Sites

[*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.*]

Demographics

AARP. *Global Aging: Achieving Its Potential*. Free. AARP, 601 E St., NW, Washington, DC 20049, (202) 434-2277.

Roszak, Theodore. *Longevity Revolution: As Boomers Become Elders*. \$15. Berkeley Hills Books, P.O. Box 9877, Berkeley, CA 94709, (888) 848-7303.

Employee Benefits

Towers Perrin/SHRM Foundation. "Benefits Alignment" (Appendix F). In Jeffrey A. Schmidt, ed., *Making Mergers Work: The Strategic Importance of People*. SHRM members, \$39.95 + S&H; nonmembers, \$49.95 + S&H. Society for Human Resource Management, 1800 Duke St., Alexandria, VA 22314-3499, (800) 444-5006.

Health Care

Henry J. Kaiser Family Foundation and Health Research and Educa-

tional Trust. *Employer Health Benefits: 2001 Annual Survey*. Free. www.kff.org or call (800) 656-4533 and request publication #3138 (report) or #3167 (summary). For multiple copies, call (800) 242-2626 (order #097506).
Institute of Medicine. *Committee on the Consequences of Uninsurance. Coverage Matters: Insurance and Health Care*. \$25 + \$4.50 S&H. National Academy Press, 2101 Constitution Ave., NW, Box 285, Washington, DC 20055, (888) 624-8373 or (202) 334-3313, fax: (202) 334-2451.

Milbank Memorial Fund. *Value Purchasers in Health Care: Seven Case Studies*. Free. Milbank Memorial Fund, 645 Madison Ave., 15th Floor, New York, NY 10022, (212) 355-8400.

National Business Coalition on Health. (1) *Alternative Strategies for Managing Employee Health Benefits*. Free. (2) *New Directions for Employer Sponsored Health Insurance*. Free. National Business Coalition on Health, 1015 18th St., NW, Suite 730, Washington, DC 20036, (202) 775-9300.

National Committee for Quality Assurance. *The State of Managed Care Quality: 2001*. Standard version, free; expanded version, \$50. National Committee for Quality Assurance, 2000 L St., NW, Suite 500, Washington, D.C. 20036, (202) 955-3500.

The Segal Company. *2002 Segal Health Plan Cost Trend Survey*. For print or PDF copies of the complete survey report, contact

Mary Feldman at The Segal Company, One Park Ave., New York, NY 10016, (212) 251-5029, or visit www.segalco.com.

UnitedHealth Foundation. *America's Health: UnitedHealth Foundation State Health Rankings*. Free. Order at www.unitedhealthfoundation.org.

Wallack, Stanley S., et al. *Recent Trends in Prescription Drug Spending for Insured Individuals Under 65 and Age 65 and Older*. Free. Schneider Institute for Health Policy, Brandeis University, 415 South St., MS 035, Waltham, MA 02454, (781) 736-3900 x3921, cthomas@brandeis.edu.

Watson Wyatt Worldwide. *Maximizing the Return on Health Benefits: 2001 Report on Best Practices in Health Care Vendor Management*. \$20. Watson Wyatt Worldwide, Attn: Marketing, 6707 Democracy Blvd., Suite 800, Bethesda, MD 20817, (800) 388-9868.

Investments

Investment Company Institute. *2001 Profile of Mutual Fund Shareholders*. \$25. Investment Company Institute, 1401 H St., NW, Suite 1200, Washington, DC 20005-2148, (202) 326-5913.

Jason, Julie. *J.K. Lasser's Strategic Investing After 50*. \$16.95. John Wiley & Sons, 1 Wiley Dr., Somerset, NJ 08875, (800) 225-5945.

Pension Plans/Retirement

Disney, Richard, and Paul Johnson. Pension Systems and Retirement Incomes Across OECD Countries. \$95. Edward Elgar Publishing Inc., P.O. Box 574, Williston, VT 05495, (800) 390-3149, fax: (802) 864-7626, e-mail: eep.orders@AIDCVT.com.

Organisation for Economic Co-operation and Development. OECD 2000 Private Pensions Conference. \$83. Organisation for Economic Co-operation and Development, Publications and Information Center, 2001 L St., NW, Suite 650, Washington, DC 20036-4910, (800) 456-6323.

Profit Sharing/401(k) Council of America. 44th Annual Survey of Profit Sharing and 401(k) Plans: Reflecting 2000 Plan Year Experience. Members, \$75; nonmembers, \$295. Profit Sharing/401(k) Council of America, 10 S. Riverside Plaza, Suite 1610, Chicago, IL 60606-3802, (312) 441-8550.

Weinstein, Grace W. J.K. Lasser's Winning With Your 401(k). \$16.95. John Wiley & Sons, 1 Wiley Dr., Somerset, NJ 08875, (800) 225-5945.

William M. Mercer. Survey on Employee Savings Plans: 2000–2001. Free. Tara Lewis, William M. Mercer Inc., 1166 Avenue of the Americas, 28th Floor, New York, NY 10036, (212) 345-2451.

Work and Family

Society for Human Resource Management. Religion in the

Workplace Survey. Nonmembers, \$69.95; SHRM members, \$60, or free at www.shrm.org/surveys. Society for Human Resource Management, 1800 Duke St., Alexandria, VA 22314-3499, (800) 444-5006.

Wisensale, Steven K. Family Leave Policy: The Political Economy of Work and Family in America. \$24.95. M.E. Sharpe, 80 Business Park Dr., Armonk, NY 10504, (800) 541-6563, www.mesharpe.com.

Documents Available on the Internet

2000 State and Local Government Public Employee Retirement Systems www.census.gov/govs/www/retire00.html

2001 Employer Health Benefits Survey www.kff.org/content/2001/20010906a/

AgeLine Database research.aarp.org/ageline/home.html

[Health Plan] Quality Dividend Calculator www.ncqa.org/

OASDI Contribution and Benefit Base www.ssa.gov/OACT/COLA/CBB.html

Revenue Sharing in the 401(k) Marketplace: Whose Money Is It? www.plantools.com/pdfs/RevenueSharingReport_9_01.pdf

A Review and Synthesis of the Cost of Workplace Regulations www.mercatus.org/Workplace.pdf
Stock Options Around the World www.fed.org/resrclib/Articles/WWSO2001FINAL.pdf

Health Care Attitudes/Opinions Survey Sites

Agency for HealthCare Research and Quality

www.ahrpr.gov

American Medical Association

www.ama-assn.org

Center for Studying Health System Change

www.hschange.com

Centers for Medicare & Medicaid Services

www.hcfa.gov

Charlton Research Company

www.charltonresearch.com/

The Commonwealth Fund

www.cmwf.org

Consumer Health Education Council

www.healthchec.org

Employee Benefit Research Institute

www.ebri.org

Harris Interactive

www.harrisinteractive.com/

Kaiser Family Foundation

www.kff.org

National Research Corporation

www.nationalresearch.com/

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