EBRI Research Highlights: Retirement and Health Data

by Dallas Salisbury, EBRI

EBRI
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Special Report and Issue Brief

The Employee Benefit Research Institute (EBRI) is a nonpartisan, nonprofit public policy research organization based in Washington, DC, that has been researching economic security issues for almost 25 years. Founded in 1978, its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals. EBRI receives funding from individuals, employers of all types, unions, foundations, and government.

EBRI's research work has focused on retirement- and health-related issues, particularly involving pension/retirement plan coverage and health insurance coverage in the employment-based benefits system. EBRI is a major source of unbiased data on the uninsured and current trends involving 401(k), IRA, and traditional pension-type retirement plans. EBRI research programs also include economic modeling of Social Security reform proposals and development of the EBRI/ICI 401(k) database, the largest and most detailed of its kind.

This document synthesizes highlights of recent EBRI research on retirement and health issues. It also provides general background information on the finances of the U.S. employment-based retirement system; lists public opinion surveys conducted by EBRI; and cites numerous other benefit-related organizations that are potential sources of additional research and information. It should be stressed that this document contains only *highlights* of EBRI's vast collection of research and analysis; for greater detail and information, visit EBRI's Web site (www.ebri.org) or contact EBRI directly.

Retirement data in this document include:
- *U.S. pension system overview, including aggregate financial assets and holdings.*
- *General 401(k) trends.*
- *401(k) account balance and asset allocation information from the EBRI/ICI 401(k) database.*
- *IRA assets and market share.*
- *Retirement asset rollover rates.*
- *Pension plan history.*
- *Basics of Social Security.*

Health data in this document include:
- *National health expenditures.*
- *The uninsured.*
- *Employment-based health insurance.*
- *Managed care.*
- *Basics of Medicare.*

Other benefits data in this document include:
- *Finances of employee benefits.*
- *Public opinion.*

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Dallas Salisbury is president and CEO of EBRI, and has been head of the Institute since its founding in 1978. The information in this *Issue Brief* was compiled by Stephen Blakely, EBRI managing editor and communications director, and Jack VanDerhei, Temple University and research director of the EBRI Fellow's program, with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the authors and should not be ascribed to the officers, trustees, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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About EBRI

The Employee Benefit Research Institute (EBRI) is a private, nonpartisan, nonprofit public policy research organization based in Washington, DC. EBRI has provided reliable and objective research, data, and analysis on retirement, health, and other economic security issues for more than 20 years. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education.

EBRI receives funding from a wide range of sources interested in economic security issues: individuals, employers of all types, unions, foundations, and government. EBRI does not lobby and does not take positions on legislative proposals.

EBRI Programs

EBRI's comprehensive program of research and dissemination covers health, retirement, and related economic security topics. This program includes policy forums, round tables, briefings, testimony, interviews, and speeches. Major studies in process include Social Security reform, individual investment education and results, health insurance coverage, health policy reform, and pension design and investment trends. Major surveys include the annual Retirement Confidence Survey and the Health Confidence Survey.

- The EBRI *Databook on Employee Benefits*, the *EBRI Health Benefits Databook*, and *Fundamentals of Employee Benefit Programs* are regularly updated as resources. They are augmented by monthly EBRI *Issue Brief* studies and monthly EBRI *Notes* (which summarize major data releases, public policy activity, and new studies).
- EBRI's Fellows program allows individuals from the private sector, government, foundations, academia, and the media to undertake studies of economic security issues and work with EBRI teams on major projects.
- Public education initiatives include EBRI's Web site (www.ebri.org), the EBRI-ERF American Savings Education Council (ASEC) (www.asec.org), the EBRI-ERF Consumer Health Education Council (CHEC) (www.healthCHEC.org), and the Choose to Save® Education Program (www.choosetosave.org).

About This Document

This document covers the major benefit-related topics that EBRI staff most often are asked about by policymakers and the news media. To see the wide range of EBRI research and analysis, visit **www.ebri.org** on the Internet, or contact one of the staff members below.

Media Contacts:

Danny Devine, Director, Public Relations
202/775-6308, devine@ebri.org
Steve Blakely, Communications Director and Editor,
202/775-6341, blakely@ebri.org

Pension/Retirement:

Jack VanDerhei, Temple University
& Research Director, EBRI Fellows Program
202/775-6327, vanderhei@ebri.org

Health:

Paul Fronstin, Senior Research Associate
202/775-6352, fronstin@ebri.org
Rachel Christensen, Research Analyst
202/775-6330, christensen@ebri.org

Health/Social Security:

Craig Copeland, Senior Research Associate
202/775-6356, copeland@ebri.org

Both Retirement & Health:

Dallas Salisbury, EBRI President & CEO
202/775-6322, salisbury@ebri.org

Introduction

Some Basics About Benefits

[The following material is excerpted from EBRI's *Fundamentals of Employee Benefit programs, 5th ed.*]

Employee benefits are intended to promote economic security by insuring against uncertain events and to raise living standards by promoting targeted services. Employee benefit programs also add to economic stability by helping to secure the income and welfare of American families, which helps the economy as a whole. Employee benefits are an important piece of total compensation, and—especially in the case of health and retirement benefits—often play a key role for many workers in deciding whether to accept a job offer.

The employee benefit system as it exists in the United States today is a partnership among businesses, individuals, and the government.

- ***Voluntary Benefits:*** Most employment-based benefits, particularly retirement plans and health insurance, are provided voluntarily by businesses. The government supports these voluntary employment-based benefits by granting favorable tax treatment both to the employers that sponsor them and to the workers who receive them.
- ***Mandatory Benefits:*** Certain other benefits, including Social Security, unemployment insurance, workers' compensation, and family and medical leave, are mandatory under federal law.
- ***Individual Programs:*** The government also supports individual financial security programs through individual retirement accounts (IRAs), favorable taxation of life insurance contracts, and tax-free death benefits.

Employee benefit programs have existed in the United States since colonial times, but federal tax provisions for employee benefit programs are relatively new. The tax code has provided tax incentives since 1921 for employment-based pension plans, since 1939 for compensation received for injuries or sickness, and since 1942 for health plans.

The Social Security program, as initially enacted in 1935, provided retirement income to workers and their spouses; in 1956, the program was extended to provide income to disabled workers (their dependents were included in the program in 1958); and in 1965, the program was extended again (with the creation of Medicare) to provide health insurance coverage to the elderly, disabled, and low-income individuals.

Because some employment-based benefits are tax-exempt (health) and others are tax-deferred (retirement plans), the current tax revenue loss to the U.S. Treasury can be substantial. Thus, employee benefits have often been targets in legislative revenue-raising efforts.

Changes in employee benefit and tax policy are continuing, and—as the post-World War II baby boom generation ages and approaches retirement—often are a major topic of public policy debate. Keeping up with and understanding these changes and their effects are important not only for sponsors of benefit programs, but for workers and the government as well.

This document excerpts highlights of EBRI's extensive research and analysis of employee benefit programs, which it has been conducting since 1978. For more information, contact EBRI or visit www.ebri.org

U.S. Pension Overview

The first pension plan in the United States was established in 1759 to benefit widows and children of Presbyterian ministers (see p.20, History of Pension Plans). Congress first granted preferential tax treatment to pensions in 1921, and has made numerous statutory changes to the taxation and regulation of pensions ever since. The major federal law governing the operation of pensions today is the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

There are two basic types of retirement plans: In a ***defined benefit plan,*** the employer agrees to provide the employee a nominal annual or periodic benefit amount at retirement based on a specified formula. In a ***defined contribution plan,*** the employer makes provision for contributions to an account established for each participating employee; the final retirement benefit reflects the total of employer contributions, employee contributions, and investment gains or losses.

Perhaps the most dramatic change in the U.S. retirement system during the last half of the 20th century has been the decline of "traditional" defined benefit plans and the rapid growth of defined contribution plans, especially the 401(k) plan.

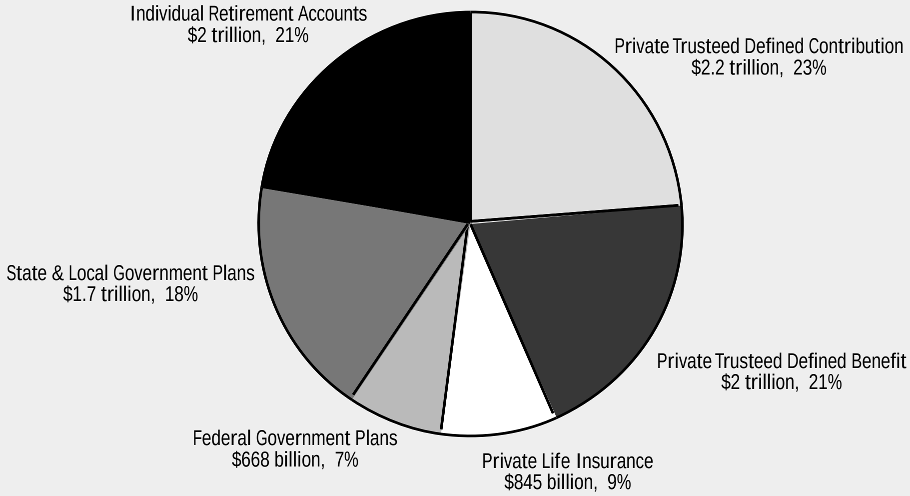
Total retirement plan assets in the United States were estimated at about $9.5 trillion at year-end 1998, of which the largest portion (amounting to 23 percent) was in defined contribution plans. Individual retirement accounts ranked next, with about 21 percent (see chart 1 and chart 2).

Table 1
Financial Assets of Private and Government Tax-Deferred Retirement Plans, 1998

	($ billions)	Percentage of Total
Private Trusteed Defined Benefit	$1,998	21.1%
Private Trusteed Defined Contribution	2,210	23.3
Private Life Insurance[a]	845	8.9
Federal Government Plans	668	7.1
State and Local Government Plans	1,717	18.1
Individual Retirement Accounts	2,029	21.4
Total	9,467	100.0

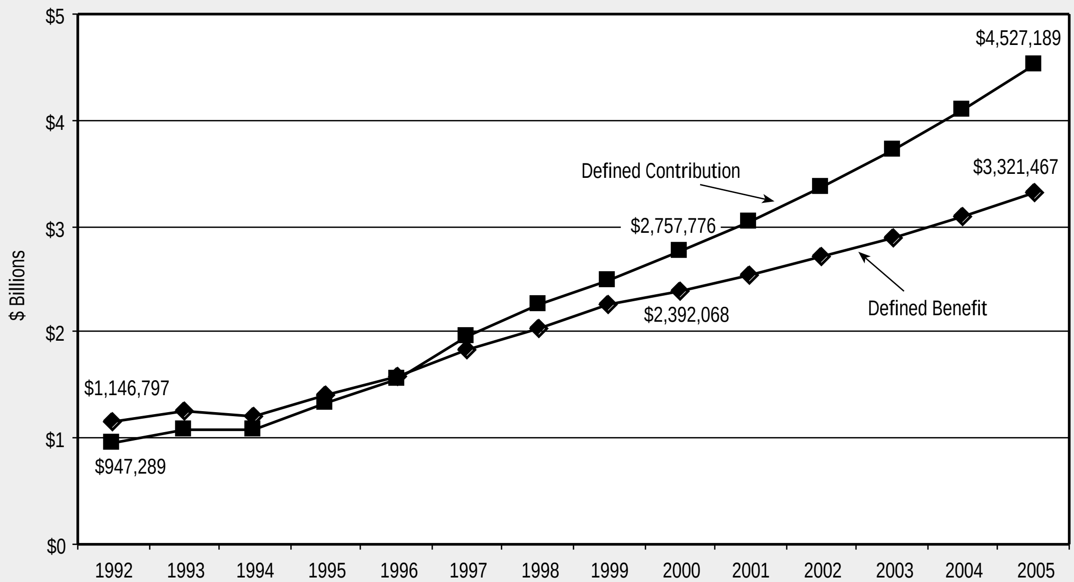
Source: EBRI's *Pension Investment Report*, Investment Company Institute, American Council of Life Insurers, Federal Deposit Insurance Corporation, U.S. Bureau of the Census, Federal Reserve, Credit Union National Association, U.S. Department of Defense, U.S. Office of Personnel Management, and the Federal Thrift Investment Board.
[a]Immediate and deferred group annuities (general and separate accounts combined).

Chart 1
Sources of Assets for the Retirement Market, 1998
(Total: $9.47 trillion)



Source: EBRI's *Pension Investment Report*, Investment Company Institute, American Council of Life Insurers, Federal Deposit Insurance Corp., U.S. Census Bureau, Federal Reserve, Credit Union National Association, U.S. Department of Defense, U.S. Office of Personnel Management, and the Federal Thrift Investment Board.

Chart 2
Defined Benefit vs. Defined Contribution Assets, 1992–2005



Source: For 1992–1996, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1999–2000); for 1997–2005, EBRI projections. Asset amounts shown exclude funds held by life insurance companies under allocated group insurance contracts for payment of retirement benefits. These excluded funds make up roughly 10–15 percent of total private fund assets.

401(k) Trends

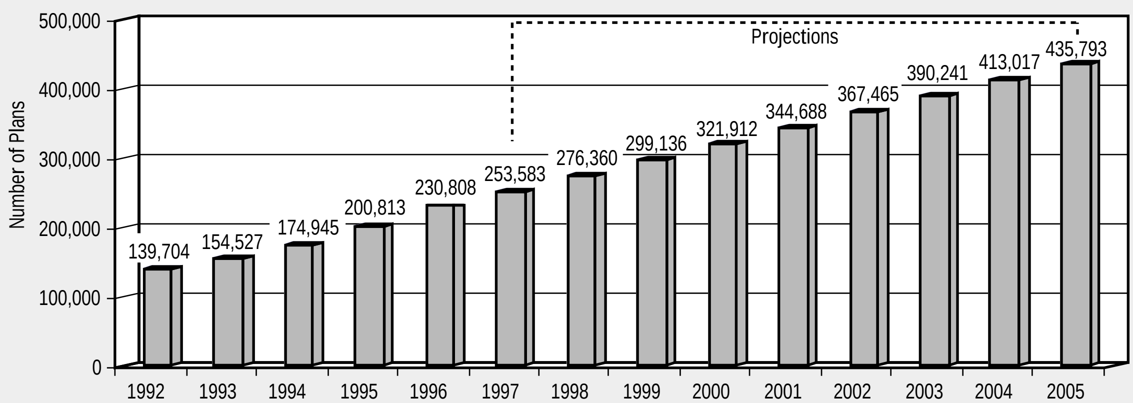
401(k) plans are one of several types of defined contribution retirement plans, although the most prevalent type in the United States. They held more than $1 trillion in assets as of year-end 1996, accounting for about 68 percent of all defined contribution assets in the nation. The plan takes its name from Sec. 401(k) of the Internal Revenue Code, where its tax treatment and operation are addressed. For more information, consult EBRI's *Fundamentals of Employee Benefit Programs*.

The Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI) have been collaborating since 1996 to collect data on participant activity in 401(k) plans. This effort, known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, has obtained data for 401(k) plan participants from certain of EBRI and ICI members serving as plan record keepers and administrators.

The latest report (*EBRI Issue Brief* no. 218, February 2000) includes data for 1998 on 7.9 million active participants in 30,102 plans holding nearly $372 billion in assets. The data include demographic information, annual contributions, plan balances, asset allocation, and loans, and are broadly representative of the universe of 401(k) plans. The database also includes three years of longitudinal information on approximately 3.3 million participants, and is the largest database of its kind in the United States tracking individual 401(k) participant activity. For the full *Issue Brief*, contact EBRI.

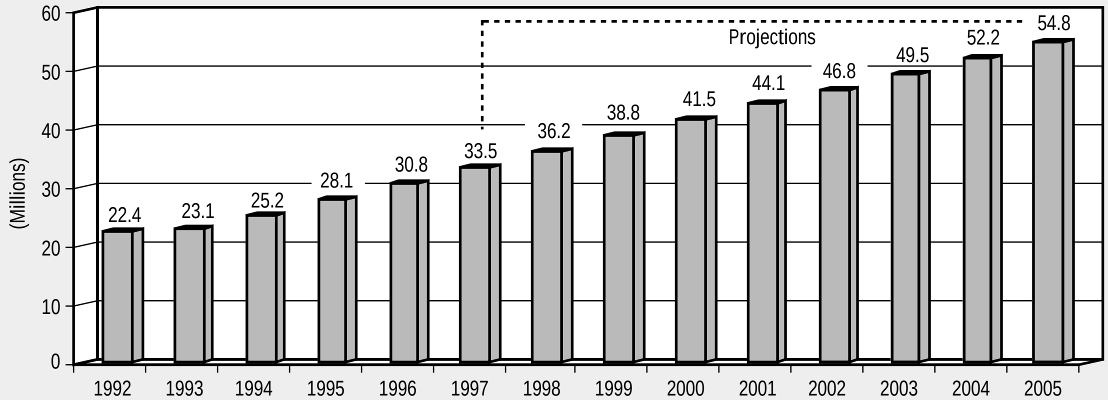
In terms of total average asset allocation (see chart 4): For all 401(k) participants in the 1998 EBRI/ICI database, almost three-quarters of plan balances were invested directly or indirectly in equity securities. Specifically, 49.8 percent of total plan balances were invested in equity funds, 17.7 percent in company stock, 11.4 percent in guaranteed investment contracts (GICs), 8.4 percent in balanced funds, 6.1 percent in bond funds and 4.7 percent in money funds.

Chart 1
401(k) Trends: Plan Growth, 1992–2005



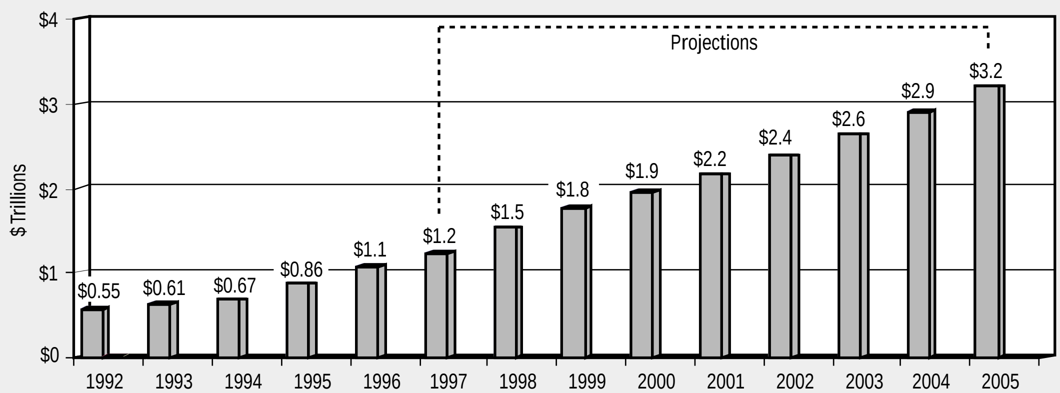
Source: For 1992–1996, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1999–2000); for 1997–2005, EBRI projections. Asset amounts shown exclude funds held by life insurance companies under allocated group insurance contracts for payment of retirement benefits. These excluded funds make up roughly 10–15 percent of total private fund assets.

Chart 2
401(k) Trends: Participant Growth, 1992–2005



Source: For 1992–1996, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1999–2000); for 1997–2005, EBRI projections. Asset amounts shown exclude funds held by life insurance companies under allocated group insurance contracts for payment of retirement benefits. These excluded funds make up roughly 10–15 percent of total private fund assets.

Chart 3
401(k) Trends: Asset Growth, 1992–2005



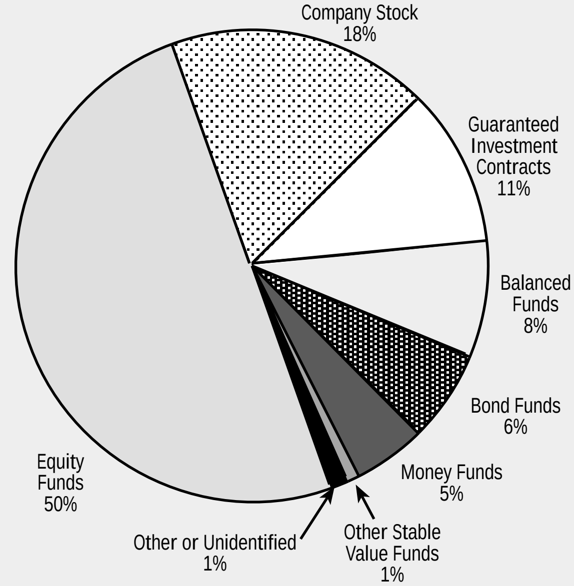
Source: For 1992–1996, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1999–2000); for 1997–2005, EBRI projections. Asset amounts shown exclude funds held by life insurance companies under allocated group insurance contracts for payment of retirement benefits. These excluded funds make up roughly 10–15 percent of total private fund assets.

Table 1
401(k) Trends: Summary of Private-Sector Qualified 401(k) Cash or Deferred Arrangement Trends, Selected Years, 1984–2005

	1984	1986	1988	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Plans[a]	17,303	37,420	68,121	97,614	139,704	154,527	174,945	200,813	230,808	253,583	276,360	299,136	321,912	344,688	367,465	390,241	413,017	435,793
Percentage of all private plans	3%	5%	9%	14%	20%	22%	25%	29%	33%	36%	40%	42%	45%	47%	50%	53%	55%	58%
Percentage of all private defined contribution plans	4%	7%	12%	16%	23%	24%	28%	32%	36%	40%	43%	45%	48%	51%	54%	56%	59%	61%
Active Participants[b] (thousands)	7,540	11,559	15,203	19,548	22,404	23,138	25,206	28,061	30,843	33,511	36,177	38,843	41,509	44,175	46,841	49,507	52,173	54,839
Percentage of all active private participants[c]	12%	18%	24%	32%	35%	36%	39%	42%	45%	47%	49%	51%	52%	54%	55%	56%	57%	59%

Source: For 1984–1996, Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1999–2000); for 1997–2005, EBRI projections.
[a]Excludes single-participant plans.
[b]401(k) participants may participate in one or more additional plans.
[c]Includes active participants in both private sector defined benefit and defined contribution plans.

Chart 4
Average 401(k) Asset Allocation for All Plan Balances, 1998



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Table 2
Average 401(k) Asset Allocation by Age, 1998
(percentage of account balances)

Age Cohort	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock	Other Stable Value Funds	Other	Unknown	Total
20s	62.1%	8.2%	4.7%	4.5%	4.7%	13.6%	0.1%	1.3%	0.8%	100%
30s	58.1	8.2	4.8	4.0	5.7	17.4	0.1	1.0	0.8	100
40s	52.6	8.4	5.3	4.5	8.5	18.9	0.1	0.9	0.8	100
50s	48.0	8.5	6.4	4.7	12.3	18.1	0.3	0.7	1.0	100
60s	39.8	8.2	9.0	5.7	20.6	14.7	0.7	0.7	0.7	100
All	49.8	8.4	6.1	4.7	11.4	17.7	0.3	0.8	0.8	100

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Table 3
Average 401(k) Asset Allocation by Age and Investment Options, 1998

Investment Options	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts (GICs)	Company Stock
			(percentage of account balances)			
All Ages Combined						
Equity, bond, money, and balanced funds	66.4%	13.0%	9.8%	8.4%		
Equity, bond, money, and balanced funds, and GICs	58.2	10.0	4.7	4.0	20.9%	
Equity, bond, money, balanced funds, and company stock	40.7	5.8	11.5	6.7		32.7%
Equity, bond, money, balanced funds, GICs, and company stock	44.4	7.1	2.1	2.3	18.7	24.3
Plans With No Company Stock or Guaranteed Investment Contracts						
Age						
20s	74.3	10.0	7.6	6.0		
30s	73.3	11.5	7.6	5.9		
40s	69.0	12.7	8.9	7.2		
50s	63.4	14.0	10.5	9.0		
60s	52.7	15.1	15.4	13.8		
Plans With Guaranteed Investment Contracts						
Age						
20s	70.7	8.4	3.6	3.5	11.3	
30s	68.7	8.8	3.9	3.1	13.2	
40s	62.5	9.7	4.4	3.8	17.4	
50s	55.6	10.5	5.1	4.0	22.7	
60s	41.9	10.0	5.8	4.9	35.8	
Plans With Company Stock						
Age						
20s	47.4	6.0	5.9	6.4		32.5
30s	47.4	6.1	6.8	6.0		32.2
40s	44.0	6.2	8.7	6.8		32.6
50s	38.4	5.7	12.5	6.8		33.7
60s	31.0	5.1	20.7	7.1		31.7
Plans With Company Stock and Guaranteed Investment Contracts						
Age						
20s	53.1	7.7	1.7	2.1	7.9	25.2
30s	49.5	7.2	1.7	1.8	9.7	28.5
40s	45.4	7.2	2.0	2.1	13.7	28.2
50s	44.9	7.3	2.3	2.3	19.3	22.9
60s	39.5	6.9	2.3	2.9	31.6	16.0

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Table 4
Average 401(k) Asset Allocation by Plan Size and Investment Options, 1998

Plan Size By Number of Participants	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock
	(percentage of account balances)					
All Plans						
1–100	66.4%	7.0%	7.8%	6.1%	10.6%	0.4%
101–500	63.7	10.9	8.1	6.8	7.5	1.2
501–1,000	58.7	11.3	8.1	6.4	8.9	5.1
1,001–5,000	53.2	11.4	5.8	6.0	11.2	10.4
> 5,000	45.4	6.7	5.7	3.6	12.1	25.0
All	49.8	8.4	6.1	4.7	11.4	17.7
Plans With No Company Stock or Guaranteed Investment Contracts						
1–100	69.6	9.9	10.3	9.2		
101–500	68.5	12.3	10.0	8.2		
501–1,000	67.4	11.8	11.2	8.2		
1,001–5,000	65.0	15.1	8.9	9.0		
> 5,000	63.5	12.4	9.9	7.3		
All	66.4	13.0	9.8	8.4		
Plans With Guaranteed Investment Contracts						
1–100	65.4	5.5	6.5	4.3	16.3	
101–500	58.8	8.7	5.3	4.4	19.6	
501–1,000	55.5	12.3	5.5	4.0	20.8	
1,001–5,000	54.7	11.3	4.9	3.8	22.7	
> 5,000	59.2	10.9	3.0	3.9	22.0	
All	58.2	10.0	4.7	4.0	20.9	
Plans With Company Stock						
1–100	23.3	4.8	6.8	18.4		46.4
101–500	49.8	11.1	7.7	10.6		17.8
501–1,000	47.7	9.5	7.8	9.2		25.0
1,001–5,000	49.7	9.2	6.4	8.8		24.0
> 5,000	37.9	4.7	13.1	6.0		35.5
All	40.7	5.8	11.5	6.7		32.7
Plans With Company Stock and Guaranteed Investment Contracts						
1–100	43.4	10.1	4.1	3.6	12.7	19.7
101–500	46.8	9.5	2.3	2.8	22.6	12.9
501–1,000	42.9	8.2	2.2	2.8	21.8	19.7
1,001–5,000	42.3	9.7	3.0	2.9	19.8	20.4
> 5,000	45.1	6.7	1.8	2.1	18.3	25.2
All	44.4	7.1	2.1	2.3	18.7	24.3

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
Note: Minor investment options are not shown; therefore, row percentages will not add to 100 percent.

Table 5

401(k) Asset Allocation Distribution of Participant Account Balances to Equity Funds by Age and Tenure, 1998

	Zero	< 20%	20%–80%	> 80%	Total
	(percentage of participants)				
Total	28.3%	5.7%	37.4%	28.5%	100.0%
Age Cohort					
20s	26.8	3.3	35.9	34.0	100.0
30s	24.3	5.0	38.6	32.1	100.0
40s	27.2	6.2	39.0	27.6	100.0
50s	30.8	7.2	37.3	24.8	100.0
60s	43.1	7.5	30.9	18.6	100.0
Tenure					
0–2 years	22.6	2.7	39.1	35.6	100.0
>2–5 years	26.0	3.7	38.1	32.2	100.0
>5–10 years	27.5	6.0	38.9	27.6	100.0
>10–20 years	31.1	7.6	38.5	22.8	100.0
>20–30 years	35.2	8.4	35.6	20.8	100.0
> 30 years	42.8	8.4	30.7	18.1	100.0

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Table 6

Average 401(k) Asset Allocation by Salary, 1998

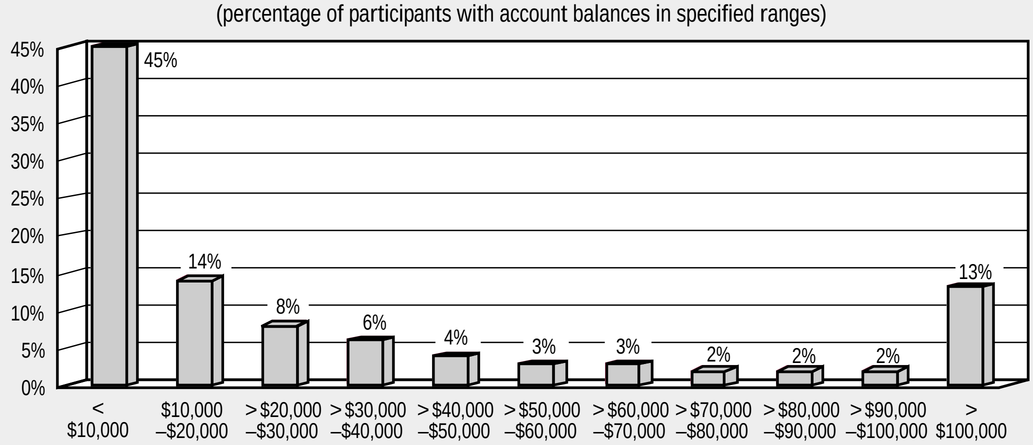
Salary	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock
	(percentage of account balances)					
$20,000–$40,000	49.8%	9.6%	5.0%	3.5%	16.8%	11.0%
>$40,000–$60,000	52.7	8.6	5.4	4.5	13.6	12.6
>$60,000–$80,000	53.6	8.2	6.9	6.4	9.8	13.7
>$80,000–$100,000	54.6	8.4	7.1	6.1	9.9	12.3
>$100,000	59.6	8.0	7.4	5.2	9.0	7.8

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
Note: Minor investment options are not shown; therefore, row percentages will not add to 100 percent.

Chart 5

Distribution of 401(k) Account Balances With the Current Employer, 1998

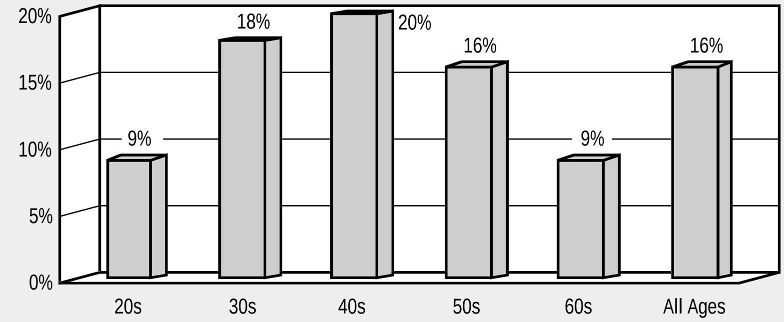
(percentage of participants with account balances in specified ranges)



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Chart 6

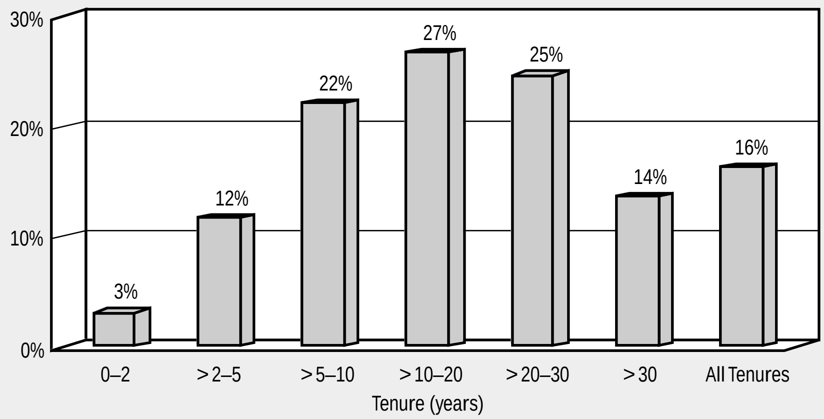
Percentage of Eligible Participants With Loans, by Age, 1998



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Chart 7

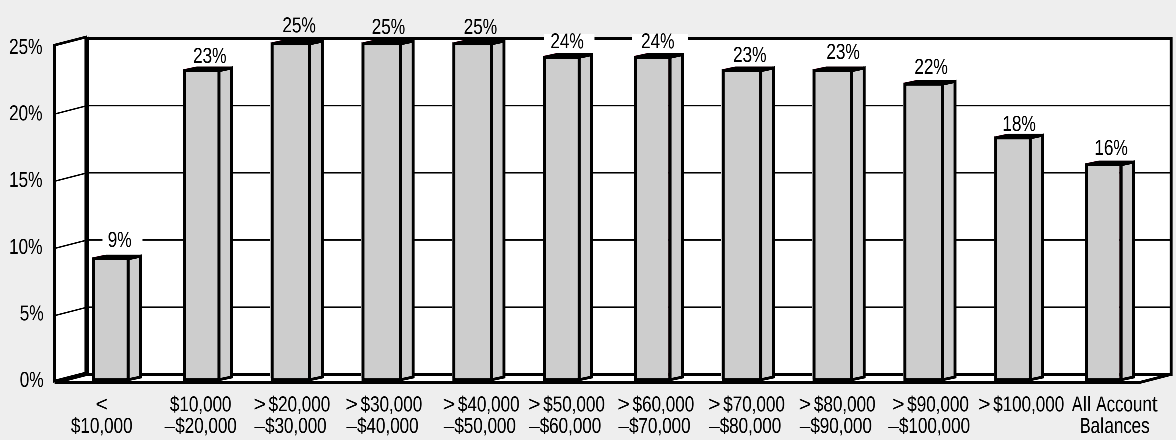
Percentage of Eligible Participants With Loans, by Tenure, 1998



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Chart 8

Percentage of Eligible Participants With Loans, by Account Balance, 1998



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

IRA Assets

Individual retirement accounts (IRAs) are tax-favored retirement vehicles that individuals or workers can establish themselves. Unlike defined contribution and defined benefit plans, which can only be sponsored by employers, IRAs provide tax-advantaged retirement savings plans for self-employed, part-time workers, or even individuals who are not in the labor force (such as nonworking spouses).

A lot of money has been flowing into IRAs in recent years: Assets in individual retirement accounts totaled $2.47 trillion as of year-end 1999, up 21.9 percent from just one year earlier (table 1). However, this growth has not been driven by regular annual contributions by IRA owners; rather, stock market gains and rollovers from other plans have accounted for the lion's share of IRA growth in recent years. Today, IRAs are used primarily as a vehicle to store retirement wealth that has been accumulated elsewhere in the retirement system, and not as a vehicle through which current retirement saving occurs (see *EBRI Notes*, January 2001).

In the last decade, banks and thrift institutions have lost IRA market share while mutual funds and self-directed brokerage accounts have gained market share. Mutual funds currently hold almost half of all IRA assets (chart 1).

In 1999, for the first time, assets in IRAs surpassed those in both private trusteed defined benefit plans and defined contribution plans (chart 1).

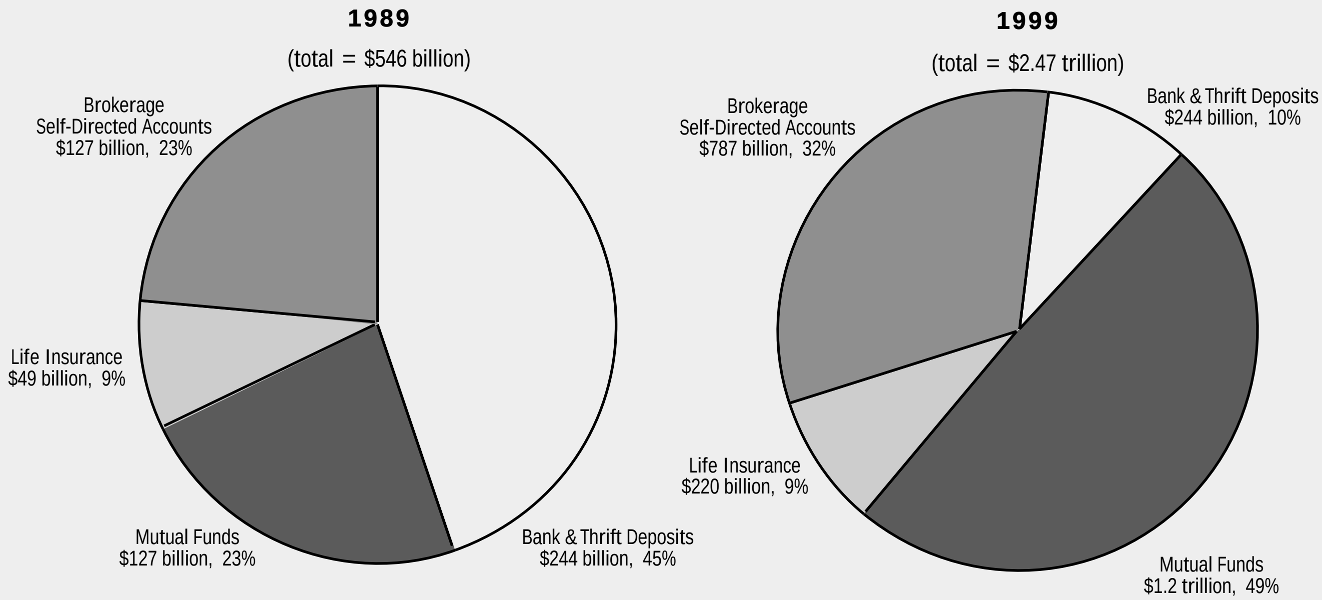
Table 1
Distribution of Individual Retirement Account Assets by Financial Institution, 1981–1999

Year	Total Assets	Bank and Thrift Deposits	Mutual Funds	Life Insurance	Brokerage Self-Directed Accounts	Percentage Increase
				(in billions)		
1981	$ 37	$ 27	$ 3	$ 3	$ 4	
1982	66	47	6	6	8	78.4%
1983	105	72	11	9	13	59.1
1984	156	104	18	12	23	48.6
1985	235	140	34	16	45	50.6
1986	319	171	59	21	69	35.7
1987	390	194	80	26	91	22.3
1988	451	217	96	33	105	15.6
1989	546	244	127	49	127	21.1
1990	636	266	140	53	177	16.5
1991	776	282	189	50	255	22.0
1992	866	275	239	56	297	11.6
1993	993	263	324	70	336	14.7
1994	1,056	255	352	79	370	6.3
1995	1,288	261	479	94	454	22.0
1996	1,467	258	602	110	496	13.9
1997	1,728	254	764	160	550	17.8
1998	2,029	249	944	190	646	17.4
1999	2,473	244	1,222	220	787	21.9
			(percentage of total assets)			
1981	100.0%	73.0%	8.1%	8.1%	10.8%	
1982	100.0	71.2	9.1	9.1	12.1	
1983	100.0	68.6	10.5	8.6	12.4	
1984	100.0	66.7	11.5	7.7	14.7	
1985	100.0	59.6	14.5	6.8	19.1	
1986	100.0	53.6	18.5	6.6	21.6	
1987	100.0	49.7	20.5	6.7	23.3	
1988	100.0	48.1	21.3	7.3	23.3	
1989	100.0	44.7	23.3	9.0	23.3	
1990	100.0	41.8	22.0	8.3	27.8	
1991	100.0	36.3	24.4	6.4	32.9	
1992	100.0	31.8	27.6	6.5	34.3	
1993	100.0	26.5	32.6	7.0	33.8	
1994	100.0	24.1	33.3	7.5	35.0	
1995	100.0	20.3	37.2	7.3	35.2	
1996	100.0	17.6	41.0	7.5	33.8	
1997	100.0	14.7	44.2	9.3	31.8	
1998	100.0	12.3	46.5	9.4	31.8	
1999	100.0	9.9	49.4	8.9	31.8	

Source: Investment Company Institute, *Mutual Fund Factbook* (Washington, DC: Investment Company Institute, 2000); and Paul Yakoboski, "IRA Assets Total More Than 2 Trillion," *EBRI Notes,* no. 5 (Employee Benefit Research Institute, May 2000): 1–3.

Chart 1

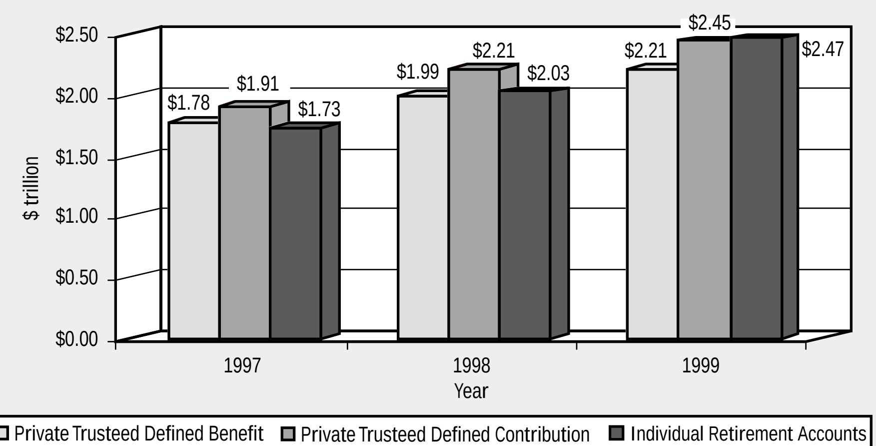
IRA Market Share



Source: Investment Company Institute, *Mutual Fund Factbook* (Washington, DC: Investment Company Institute, 2000); and Paul Yakoboski, "IRA Assets Total More Than $2 Trillion," *EBRI Notes*, no. 5 (Employee Benefit Research Institute, May 2000): 1–3.

Chart 2

IRA Assets Versus Private Trusteed Pension Plan Assets, 1997–1999



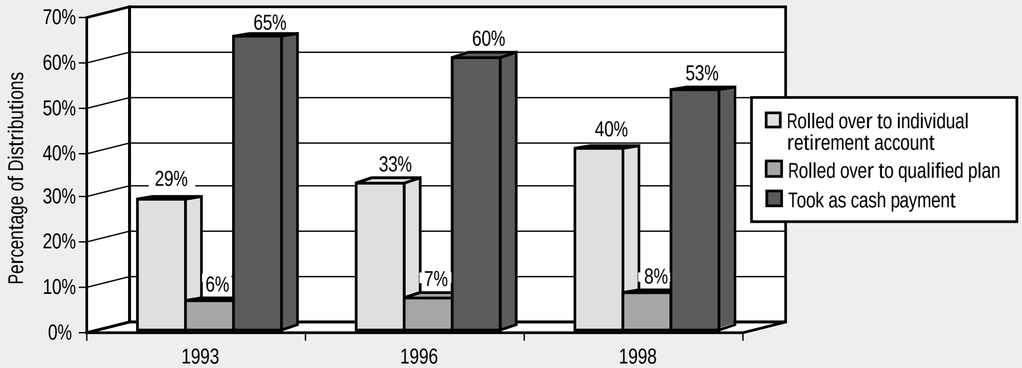
Source: Employee Benefit Research Institute, *Pension Investment Report, second quarter 2000* (Washington, DC: Employee Benefit Research Institute, December 2000); and Investment Company Institute, *Mutual Fund Factbook* (Washington, DC: Investment Company Institute, 2000).

Retirement Rollover Rates

One of the key challenges to the U.S. retirement income system is "leakage" of retirement assets when workers change jobs. Many people do not roll over their retirement assets from a former job and instead spend the money for living expenses or consumer purchases. While rollover rates have been increasing in recent years, as of 1998 slightly less than half (48 percent) of all retirement distributions to job-changers were rolled over into another tax-qualified retirement plan.

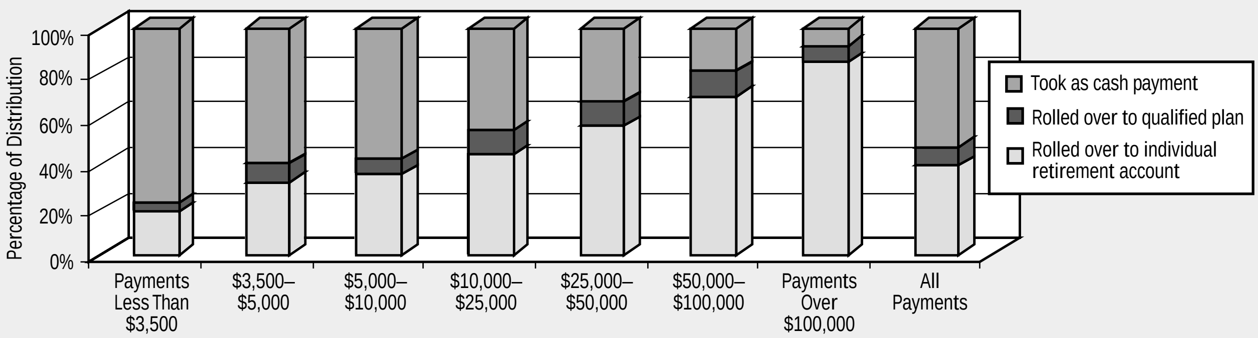
- In 1998, almost one-half (48 percent) of all retirement distributions to job-changers (i.e., on job termination) were rolled over: 40 percent were rolled over to an individual retirement account (IRA), and 8 percent were rolled over into another tax-qualified plan. This is an increase from the 40 percent rollover rates in 1996 and 35 percent in 1993 (chart 1).
- The data used in this section are from Hewitt Associates, a benefits consulting firm. The 1998 Hewitt database consisted of 33,317 distributions that went to workers upon job termination (i.e., to job-changers), and these distributions totaled $1.2 billion (for an average distribution of $34,671). The number of observations available for 1996 and 1993 were larger, although the amounts distributed were smaller. The 1996 Hewitt database contained 71,736 distributions totaling $1.3 billion (for an average distribution of $18,313). The 1993 Hewitt database contained 117,781 distributions to job-changers, totaling $1.6 billion (for an average distribution of $13,936).
- The data show that rollover propensities increase with the size of the distribution, i.e., the larger the distribution, the more likely it will be preserved in a tax-qualified vehicle. In 1998, 23 percent of distributions of less than $3,500 were rolled over, compared with 92 percent of distributions larger than $100,00 (chart 2).
- The likelihood of rollover is also positively correlated with the recipient's age. In 1998, 33 percent of all distributions made to workers in their 20s were rolled over into IRAs or other tax-qualified saving vehicles. This rollover rate increased steadily to 60 percent for recipients in their 50s (chart 3).
- Sixty-four percent of the dollars distributed to recipients in their 20s were rolled over. This figure increased to 89 per-cent for workers in their 50s.
- The increased propensity to roll over retirement plan distributions upon job change during the 1993–1998 period was driven by those receiving smaller distributions (account balances of less than $10,000). The fraction of those receiving a distribution of less than $3,500 who chose to roll it over rose from 17 percent to 23 percent during that period. Among those with a distribution between $3,500 and $5,000, 30 percent chose to roll it over in 1993, compared with 40 percent in 1998. For distributions between $5,000 and $10,000, 39 percent were rolled over in 1993, compared with 42 percent in 1998. The same trend emerges when the fraction of dollars distributed is examined over time.

Chart 1
Benefit Preservation Among Job Changers, by Percentage of Distributions, 1993, 1996, and 1998



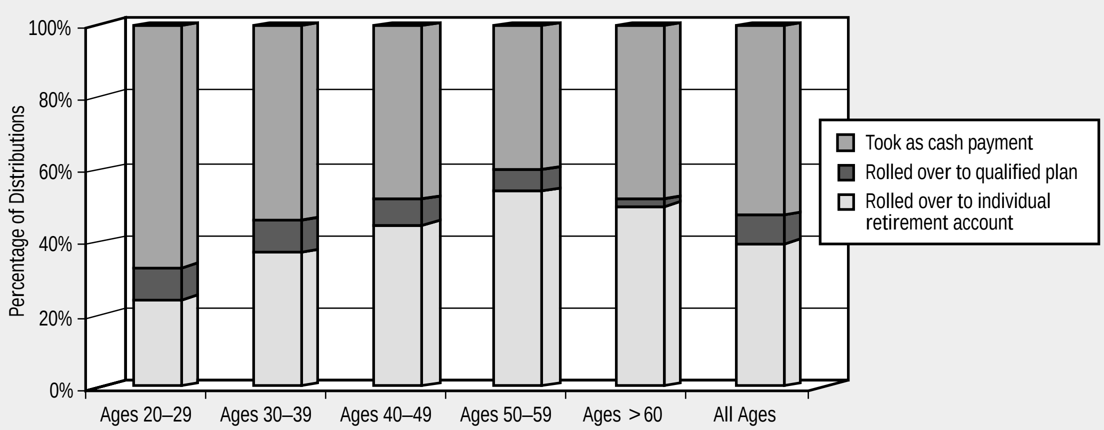
Source: Employee Benefit Research Institute, *EBRI Databook on Employee Benefits*, 4th ed. (Washington, DC: Employee Benfit Research Institute, 1997).

Chart 2
Benefit Preservation Among Job Changers, by Percentage of Distributions, by Salary, 1998



Source: Employee Benefit Research Institute, *EBRI Databook on Employee Benefits*, 4th ed. (Washington, DC: Employee Benfit Research Institute, 1997).

Chart 3
Benefit Preservation Among Job Changers, by Percentage of Distributions, by Age, 1998



Source: Employee Benefit Research Institute, *EBRI Databook on Employee Benefits*, 4th ed. (Washington, DC: Employee Benfit Research Institute, 1997).

History of Pension Plans

- Prior to the 1870s, private-sector pension plans did not exist, primarily because most companies were small family-run enterprises.
- 1875—The first private pension plan established in the United States was set up by the American Express company.
- 1921—Revenue Act of 1921 exempted interest income on trusts for stock bonus or profit-sharing plans from current taxation. Trust income was taxed as it was distributed to employees only to the extent that it exceeded employees' own contributions. The act did not authorize deductions for past service contributions.
- 1926—The Revenue Act of 1926 exempted income of pension trusts from current taxation.
- 1928—The Revenue Act of 1928 allowed employers to take tax deductions for reasonable amounts paid into a qualified trust in excess of the amounts required to fund current liabilities. It changed the taxation of trust distributions that are attributable to employer contributions and earnings.
- Between 1875 and 1929, 421 private-sector pension plans were established in the United States and Canada, and 28 plans were discontinued during that period. By 1929, 397 private-sector plans were in operation in the United States and Canada.
- Some of the companies that established plans prior to 1930 were: Standard Oil of New Jersey, 1903; U.S. Steel Corp., 1911; General Electric Co., 1912; American Telephone and Telegraph Co., 1913; Goodyear Tire and Rubber Co., 1915; Bethlehem Steel Co., 1923; American Can Co., 1924; and Eastman Kodak Co., 1929.
- 1935—Enactment of Social Security.
- 1938—The Revenue Act of 1938 enacted a nondiversion rule and made pension trusts irrevocable.
- 1940—4.1 million private-sector workers (15 percent of all private-sector workers) were covered by a pension plan.
- 1940—The Investment Advisors Act of 1940 required delegation of investment responsibilities only to an adviser registered under the act or to a bank or an insurance company.
- 1942—The Revenue Act of 1942 tightened coverage standard qualifications, limited allowable deductions, and allowed integration with Social Security.
- 1946—United Steelworkers of America made pensions an issue in their strike against Inland Steel. The National Labor Relations Act did not cover pensions. Steelworkers Local 1010 in Indiana Harbor took the issue to the National Labor Relations Board.
- 1947—The Labor-Management Relations Act of 1947 provided fundamental guidelines for the establishment and operation of pension plans administered jointly by an employer and a union.
- 1948—The National Labor Relations Board ruled that Congress intended pensions to be part of wages and that they fell under "conditions of employment" mentioned in the act, although not specifically defined.
- 1950—General Motors (GM) established a pension plan for its employees. GM wanted to self-fund its pension plan because it wanted to invest in stocks. Insurance companies were prohibited by state law from investing pension assets in stocks. The 1950s saw a bull market caused by the release of pent-up demand due to wartime restrictions and the need to rebuild Europe and Japan.
- 1950—9.8 million private-sector workers (25 percent of all private-sector workers) were covered by a pension plan.
- 1958—The Welfare and Pension Plan Disclosure Act of 1958 established disclosure requirements to limit fiduciary abuse.
- 1960—18.7 million private-sector workers (41 percent of all private-sector workers) were covered by a pension plan.
- 1962—The Welfare and Pension Plan Disclosure Act Amendments of 1962 shifted responsibility for protection of plan assets from participants to the federal government to prevent fraud and poor administration.
- 1962— Self-Employed Individual Retirement Act of 1962, also known as the Keogh Act, made available qualified pension plans for self-employed persons, unincorporated small businesses, farmers, professionals, and their employees.
- 1969—The Tax Reform Act of 1969 provided fundamental guidelines for the establishment and operation of pension plans administered jointly by an employer and a union. It provided that part of a lump-sum distribution received from a qualified employee trust within one taxable year (on account of death or other separation from service) be given ordinary income treatment instead of the capital gains treatment it had been given under prior law. Under this act, the bargain element on the exercise of statutory options is a tax preference item, unless the stock option is disposed of in the same year the option is exercised.
- 1970—26.3 million private-sector workers (45 percent of all private-sector workers) were covered by a pension plan.
- 1974—The Employee Retirement Income Security Act of 1974 (ERISA) was designed to secure the benefits of

participants in private pension plans through participation, vesting, funding, reporting, and disclosure rules. It established the Pension Benefit Guaranty Corporation (PBGC) and provided added pension incentives for the self-employed (through changes in Keoghs) and to persons not covered by pensions (through individual retirement accounts (IRAs)). It also established legal status of employee stock ownership plans (ESOPs) as an employee benefit, codified stock bonus plans under the Internal Revenue Code, and established requirements for plan implementation and operation.

- 1975—The Tax Reduction Act of 1975 established the Tax Reduction Act stock ownership plan (TRASOP) as an employee benefit.
- 1978—The Revenue Act of 1978 established qualified deferred compensation plans (Sec. 401(k)) under which employees are not taxed on the portion of income they elect to receive as deferred compensation rather than direct cash payments. It also created simplified employee pensions (SEPs) and changed IRA rules.
- 1980—35.9 million private-sector workers (46 percent of all private-sector workers) were covered by a pension plan.
- 1981—The Economic Recovery Tax Act of 1981 (ERTA) raised contribution limits on IRAs and Keogh plans and extended IRA eligibility to persons covered by employer pension plans. It also authorized qualified voluntary employee contributions and permitted payroll-based tax credit instead of investment-based Tax Reduction Act stock ownership plans (TRASOPs).
- 1982—The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) changed Keogh plan contribution limitations, established a new category of plans known as top-heavy plans, and imposed more stringent Sec. 415 funding and benefit limitations. It also altered provisions allowing loans to plan participants, changed rules governing integration with Social Security, reduced estate tax exclusion for proceeds of qualified retirement plans, set age limits for plan distributions, and established various rules aimed at personal service corporations.
- 1984—The Tax Reform Act of 1984 and Deficit Reduction Act of 1984 (DEFRA) made substantial changes to rules governing IRAs, SEPs, ESOPs, ISOs, top-heavy plans, and golden parachutes. This legislation froze TEFRA's maximum annual pension benefit and contribution limits through 1987, modified its top-heavy provisions and definition of key employees, and exempted government plans from top-heavy requirements. It made changes affecting Sec. 401(k) plans, including the nondiscrimination test. It substantially changed TEFRA's rules on distribution limits from qualified plans, and it also established additional tax incentives to encourage the formation of ESOPs.
- 1985—The Consolidation Omnibus Budget Reconciliation Act of 1985 (COBRA) (included in Single-Employer Pension Plan Amendments Act of 1986) significantly restricted the definition of insured termination for purposes of PBGC coverage. It also raised the employer's annual PBGC premium rate.
- 1986—Tax Reform Act of 1986 established faster minimum vesting schedules, changed rules for integration of private pension plans with Social Security, and mandated broader and more comparable minimum coverage of rank-and-file employees. It restricted 401(k) salary reduction contributions, tightened nondiscrimination rules, and required inclusion of all after-tax contributions to defined contribution plans as annual additions under Sec. 415 limits. It extended the limit on amount of compensation that may be taken into account under all qualified plans, imposed new excess benefit tax on distributions over a certain amount, and reduced maximum benefit payable to early retirees under defined benefit plans. It restricted the allowable tax-deductible contributions to IRAs for individuals who participated in an employer-sponsored pension plan and whose income exceeded a specified threshold. It imposed excise tax on lump-sum distributions received before age 59$^1/_2$, created SEP salary reduction option for firms with 25 or fewer employees, and subjected loans above a certain amount to current income tax.
- 1986—The Omnibus Budget Reconciliation Act of 1986 (OBRA '86) required that employers with pension plans provide pension accruals or allocations for employees working beyond age 64 and for newly hired employees who are within five years of normal retirement age.
- 1987—Omnibus Budget Reconciliation Act of 1987 (OBRA '87) changed funding rules governing underfunded and overfunded pension plans and PBGC premium levels and structure. It increased per participant premiums for single-employer defined benefit plans and established variable rate surcharge for underfunded plans. It established a maximum funding limit of 150 percent of current liability, beyond which employer contributions are not deductible. It tightened minimum funding requirements for underfunded plans; required quarterly premium payment for single-employer plans, and amended Age Discrimination in Employment Act (ADEA) and ERISA to require full pension service credits for participants employed beyond normal retirement age.
- 1988—Technical and Miscellaneous Revenue Act of

1988 increased excise tax on excess pension assets upon termination.

- 1989—The Omnibus Budget Reconciliation Act of 1989 (OBRA '89) partially repealed the interest exclusion on ESOP loans. It imposed mandatory Labor Department civil penalties on violations by qualified plan fiduciaries and created a tax penalty for substantial overstatement of pension liabilities in determining deductibility. It required that various forms of deferred compensation be included in the determination of average compensation and, in turn, the Social Security taxable wage base.
- 1990—39.5 million private-sector workers (43 percent of all private-sector workers) were covered by a pension plan.
- 1990—Omnibus Budget Reconciliation Act of 1990 (OBRA '90) increased excise tax on asset reversions from 15 percent to 20 percent in certain cases. It increased the excise tax to 50 percent if the employer does not maintain a qualified replacement plan or provide certain pro rata increases. It allowed the limited use of qualified transfers of excess pension assets to a 401(h) account to fund current retiree health benefits. It also raised the PBGC flat premium and increased the variable premium.
- 1990—The Older Workers Benefit Protection Act of 1990 amended the Age Discrimination in Employment Act (ADEA) to apply to employee benefits. It restored and codified the equal-benefit-for-equal-cost principal and set a series of minimum standards for waivers of rights under ADEA in early retirement situation.
- 1991—The Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991 included provisions to eliminate pass-through coverage for benefit-responsive bank investment contracts (BICs) and to limit federal deposit insurance to $100,000 per individual per institution.
- 1992—The Unemployment Compensation Amendments of 1992 imposed a 20 percent mandatory withholding tax on lump-sum distributions that are not rolled over into qualified retirement accounts, liberalized rollover rules, and required plan sponsors to transfer eligible distributions directly to an eligible plan if requested by the participant.
- 1993—The Pension Annuitants Protection Act of 1993 clarified that, in cases where a pension plan fiduciary purchases insurance annuities in violation of ERISA rules, a court may award appropriate relief, including the purchase of backup annuities, to remedy the breach.
- 1994—The Uruguay Round Agreements Act of 1994 included provisions from the Retirement Protection Act of 1993 to require greater contributions to underfunded plans. It limited the range of interest rate and mortality assumptions used to establish funding targets, phased out the variable rate premium cap, modified certain rules relating to participant protections, and required private companies with underfunded pension plans to notify the PBGC before engaging in a large corporate transaction. It slowed pension cost-of-living adjustments and extended through the year 2000 a tax provision that allows excess pension plan assets in certain defined benefit plans to be transferred into a 401(h) retiree health benefits account.
- 1996—The Small Business Job Protection Act of 1996 created the savings incentive match plan for employees (SIMPLE) for small establishments. It created a new nondiscrimination safe harbor, repealed Sec. 415(e) limits, created a new definition of highly compensated employees, modified plan distribution rules, repealed family aggregation rules, made USERRA technical changes, and required that Sec. 457 plan assets be held in trust.
- 1996—The "Source Tax" Repeal of 1996 amended the Internal Revenue Code to eliminate state taxation of pension income received by individuals who no longer reside in the state where they earned their pensions.
- 1997—The Taxpayer Relief Act of 1997 made several important changes to the laws governing IRAs, including the creation of new backloaded Roth IRAs. It allowed for penalty-free withdrawals from any IRA for college expenses and for first-time home purchases.
- 1997—The purpose of the Savings Are Vital for Everyone's Retirement (SAVER) Act is to advance the public's knowledge and understanding of the importance of retirement savings. This was to be done by: 1) providing a bipartisan national retirement savings summit hosted by the White House and congressional leaders, and 2) establishing an on-going educational program coordinated by the Department of Labor.

History of 401(k) Plans

A 401(k) plan is a cash or deferred arrangement under which a covered employee can elect to have a portion of his or her compensation (otherwise payable in cash) contributed to a qualified retirement plan as a pre-tax reduction in salary (however, some plans also accept after-tax contributions from employees). Assets are invested in stocks, bonds, guaranteed investment contracts (GICs), cash-equivalents, or a diversified portfolio of these investments. The pre-tax contributions as well as earnings on an account are taxed only when withdrawn. Employers generally have the discretion whether or not to make matching contributions to their workers' 401(k) plan. Currently (as of December 2000), the maximum annual contribution that an individual can make to his or her 401(k) account is $10,500, indexed for inflation.

In recent years, 401(k) plans have become the fastest-growing type of retirement plan in the United States. This brief history tracks key events in the development of 401(k) plans.

- **1978**—The Revenue Act of 1978 included a provision that became Internal Revenue Code (IRC) Sec. 401(k) (for which the plans are named), under which employees are not taxed on the portion of income they elect to receive as deferred compensation rather than as direct cash payments. Prior to 1978, the Internal Revenue Service (IRS) had issued a series of Revenue Rulings (Rev. Rul. 56-497, Rev. Rul. 63-180, and Rev. Rul. 68-89) that allowed eligible employees to elect to receive a portion of their profit-sharing contributions in cash and defer the noncash portion in a profit-sharing plan on a pre-tax basis. The Revenue Act of 1978 added permanent provisions to the IRC, sanctioning the use of salary reductions as a source of plan contributions. The law went into effect on Jan. 1, 1980. Dow Jones Industrial Average (at year-end 1978): 805.01.

- **1981**—The IRS issued proposed regulations on Sec. 401(k) that sanctioned the use of employee salary reductions as a source of retirement plan contributions. Dow Jones Industrial Average at year-end: 875.00.

- **1984**—The Tax Reform Act of 1984 (TRA '84) modified the rules for 401(k) plans by, among other things, requiring nondiscrimination testing to ensure that contributions or benefits under tax-qualified plans do not discriminate in favor of highly compensated employees by more than an allowable amount.

  Number of plans with a 401(k) feature (according to U.S. Department of Labor Form 5500 reports): 17,303. Number of active participants in these plans: 7,540,000. Total assets in these plans: $91.75 billion. Dow Jones Industrial Average at year-end: 1,211.57.

- **1986**—The Tax Reform Act of 1986 (TRA '86) tightened up on the nondiscrimination rules, reduced the maximum annual 401(k) salary deferrals by employees (under IRC Sec. 402(g)), and required inclusion of all after-tax contributions to defined contribution plans as annual additions under IRC Sec. 415 limits (which set the maximum annual contribution that can be made by both a worker and his or her employer).

- **1990**—Number of plans with a 401(k) feature: 97,614. Number of active participants in these plans: 19,548,000. Total assets in these plans: $384.85 billion. Dow Jones Industrial Average (at year-end): 2,633.66.

- **1992**—The Unemployment Compensation Amendments of 1992 imposed a 20 percent mandatory withholding tax on lump-sum distributions that are not rolled over into another qualified retirement plan, annuity, or individual retirement account (IRA); liberalized rollover rules; and required plan sponsors to transfer eligible distributions directly to an eligible plan if requested by the participant.

- **1996**—The Small Business Job Protection Act of 1996 (SBJPA) provided design-based "safe harbor" methods for satisfying the nondiscrimination tests applicable to 401(k) plans, introduced SIMPLE plans (savings incentive match plans for employees) for employers with no more than 100 employees, repealed Sec. 415(e) limits (maximum defined benefit plan promised benefits and defined contribution plan contributions made to the same employee), and created a new definition of "highly compensated employees."

  Number of plans with a 401(k) feature: 230,808. Number of active participants: 30,843,000. Total assets: $1.06 trillion. Dow Jones Industrial Average (at year-end): 6,448.27.

- **1998**—IRS Notice 98-52, issued as part of the pension simplification provisions of the SBJPA, provided guidance on "alternative" or "safe harbor" methods of satisfying the 401(k) nondiscrimination requirements in IRC Sec. 401(k)(12). The IRS also issued Rev. Rul. 98-30, which gave a stamp of approval for employers to make "negative elections" (i.e., automatic enrollment) into 401(k) plans for newly eligible employees ("negative election" allows workers to be automatically enrolled in their employer's retirement savings plan if they take no action).

- **1999**—IRS Notice 99-1 issued guidance concerning the use of electronic technologies, including computer media, in retirement plans. This was done in response to the Taxpayer Relief Act of 1997, in which Congress specifically instructed both the IRS and the Department of Labor to develop guidance and regulations relating to retirement plan notification, consent, and other employee communications in light of new technologies.

- **2000**—IRS Rev. Rul. 2000-8 provided additional guidance on "negative elections" by allowing negative (or automatic) enrollment in 401(k) plans for already-eligible employees who are deferring at a rate that is less than the automatic enrollment rate. The IRS also issued IRS Notice 2000-3 on 401(k) "safe harbor" rules, which modified Notice 98-52 and provided additional guidance on how to satisfy the rules.

  Number of plans with a 401(k) feature: 321,912. Number of active participants in these plans: 41.5 million. Total assets in these plans: $1.9 trillion. Dow Jones Industrial Average (as of Nov. 16, 2000): 10,656.03.

The Basics of Social Security

Updated With the 2000 Board of Trustees Report

- The U.S. Congress enacted the Social Security Act in 1935, creating the Old-Age and Survivors Insurance (OASI) program, which provided retirement income benefits to workers ages 65 and older in commerce and industry (except railroads). The system became effective in 1937, and is financed by a payroll tax paid by employers and employees. In 1939, the system was expanded to cover dependents and survivors of covered workers. Legislation enacted in 1950 and subsequent years allowed states the option, under certain conditions, to provide Social Security coverage to their employees. The Social Security Act Amendments of 1983 prohibited states from opting out of the Social Security program. In 1990, Social Security coverage became mandatory for state and local employees not covered by a state or local government retirement plan.
- In 1956, the Disability Insurance (DI) program was added to the Social Security program, providing income to disabled workers. In 1958, dependents of disabled workers receiving benefits under the DI program became eligible for benefit payments.
- Currently, the U.S. Department of the Treasury credits the Medicare and Social Security trust funds with any annual excess of Social Security and Medicare tax revenues over the amount spent for current benefits. By law, these assets must be invested in special securities issued by the Treasury. The government then spends these "assets" to ease fiscal pressures on other programs or, currently, to pay down government debt. The trust fund surpluses are not reserved for future Social Security and Medicare benefits but are bookkeeping entries showing how much the Social Security and Medicare programs have lent to the Treasury (or alternatively, what is owed to Social Security and Medicare, including interest, by the Treasury). When the trust funds go into negative cash flow, the Treasury must start repaying the money.
- For budgetary purposes, the date on which the trust funds go into negative cash flow (i.e., the benefit payments exceed the income from payroll taxes and the taxation of benefits) is significant because it marks the point at which the government must provide cash from general revenues to the programs rather than receive surplus cash from them to fund other current spending.
- According to the 2000 Social Security trustees' report, under intermediate assumptions, the combined Old-Age, Survivors and Disability Insurance (OASDI) trust fund expenses are expected to exceed income from taxes in 2015. By 2025, OASDI expenses are expected to exceed income from taxes plus interest income (negative cash flow), and the trust fund is expected to be exhausted by 2037. The DI trust fund is expected to go into negative cash flow in 2012 and to be exhausted in 2023, and the OASI trust fund is expected to go into negative cash flow in 2026 and be exhausted by 2039.
- The Social Security trust funds are derived from payroll taxes assessed on employers and employees. Under current law, the payroll taxes are assessed as follows. OASI payroll taxes for 2000 are based on a combined employer/employee rate of 10.6 percent of earnings up to a maximum annual taxable amount of $76,200. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 1999, total income for the OASI trust fund was $457.0 billion: $396.4 billion was in payroll taxes, $10.9 billion was in taxation of benefits, and $49.8 billion was interest income.
- DI payroll taxes for 2000 are based on a combined employer/employee rate of 1.8 percent of earnings, up to a maximum taxable amount of $76,200. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 1999, total income for the DI trust fund was $69.5 billion: $63.2 billion was from payroll taxes, $0.7 billion was from taxation of benefits, and $5.7 billion was from interest income.
- In 1992, the DI trust fund went into negative cash flow and was projected to become insolvent in 1995. To alleviate this problem, Congress enacted the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387), which reallocated a portion of OASI taxes to the DI trust fund, effective retroactively.
- In 1999, 38.1 million beneficiaries received benefit payments from the OASI program. In 1999, 6.5 million individuals, disabled workers, and their dependents received benefit payments. Under intermediate assumptions, the number of OASI beneficiaries is projected to increase to 40.5 million in 2005 and to 71.0 million in 2030, and the number of DI beneficiaries is projected to increase to 8.1 million in 2005 and to 12.1 million in 2030.

- In 1945, the number of covered workers per OASDI beneficiary was 41.9. By 1965, that number was 4.0, and in 1999, it was 3.4. Under intermediate assumptions, the number of covered workers per OASDI beneficiary is estimated to be 3.3 in 2005, 2.1 in 2030, and 2.0 in 2060.
- In 1999, total benefit payments from the OASI trust fund amounted to $334.4 billion. Total benefit payments from the DI trust fund were $51.4 billion.
- Treasury Secretary Lawrence H. Summers acts as the Managing Trustee of the OASDI trust funds, and William A. Halter, Commissioner of Social Security, is the Secretary. The other trustees include: Alexis M. Herman, Secretary of Labor; Donna E. Shalala, Secretary of Health and Human Services; Kenneth S. Apfel, Commissioner of Social Security; Stephen G. Kellison, Chief Actuary of The Variable Annuity Life Insurance Company; and Marilyn Moon, an Economist at the Urban Institute.

Table 1

Estimated Average Monthly Social Security Benefits: Before and After the December 1999 Cost-of-Living Adjustment (COLA)

	Before 2.4% COLA	After 2.4% COLA
All Retired Workers	$ 785	$ 804
Aged Couple, Both Receiving Benefits	1,316	1,348
Widowed Mother and Two Children	1,573	1,611
Aged Widow(er) Alone	757	775
Disabled Workers, Spouse and One Or More Children	1,225	1,255
All Disabled Workers	736	754

National Health Expenditures

According to the Health Care Financing Administration (HCFA), national health expenditures increased 5.6 percent between 1997 and 1998, reaching a record high of more than $1.1 trillion (table 1). The private sector accounted for 54.5 percent of national health spending, and the public sector accounted for 45.5 percent of national health spending, according to HCFA (table 1).

Recent analysis suggests that these estimates may be understating public spending for health care. For example, it has been estimated that public-sector employers contributed $63.2 billion toward the purchase of employment-based health insurance, but HCFA assigns this expenditure to the private sector. Furthermore, forgone tax revenue not collected because of the tax preference for health care spending is not counted toward national health spending by HCFA. If HCFA estimates of national health spending had included forgone tax revenue as public spending—as the Treasury has done since 1974 in response to an act of Congress—and had re-allocated spending for employment-based health insurance by public-sector employers to public spending, private spending would account for 44 percent of all health care spending, while public spending would account for 56 percent (chart 1).

For the fifth consecutive year in 1998, the rate of growth in health care spending was below 6 percent. The average annual growth rate of national health expenditures had been slowing for a number of years, with 1996 being the lowest growth year. The change between 1997 and 1998 can be viewed as a predictor for the future, as health care spending rates are rising again (chart 2).

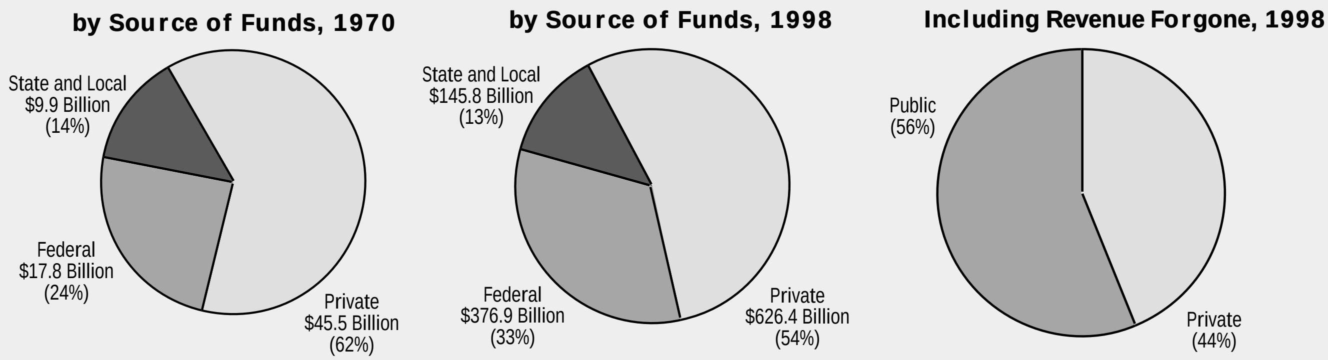
National health spending, measured as a percentage of gross domestic product (GDP), has basically remained constant since 1993 at roughly 13.5 percent, although up significantly from 8.9 percent in 1980 (table 1).

Table 1
National Health Expenditures by Source of Funds, Selected Years 1970–1998

	1970	1980	1990	1994	1995	1996	1997	1998
				($ billions)				
National Health Expenditures	$ 73.2	$247.3	$699.4	$947.7	$993.3	$1,039.4	$1,088.2	$1,149.1
Private	45.5	142.5	416.2	524.7	537.3	559.0	586.0	626.4
consumer	41.2	130.0	384.6	483.5	494.6	513.0	535.7	574.6
direct payments (out of pocket)	24.9	60.3	145.0	168.2	170.5	178.1	189.1	199.5
private health insurance	16.3	69.8	239.6	315.3	324.0	334.9	346.7	375.0
other private	4.4	12.5	31.6	41.2	42.7	46.1	50.3	51.8
Public (government)	27.7	104.8	283.2	423.0	456.0	481.4	502.2	522.7
federal	17.8	72.0	195.2	301.2	326.1	347.3	363.0	376.9
Medicare	7.7	37.5	111.5	166.9	185.3	199.4	211.3	216.6
Medicaid	2.9	14.5	42.7	81.5	86.4	92.3	95.0	100.3
other federal	7.3	19.9	41.0	52.8	54.5	55.7	56.8	60.0
state and local	9.9	32.8	88.0	121.8	129.8	133.1	139.2	145.8
Medicaid	2.5	11.6	32.7	53.1	59.8	61.8	65.0	70.3
other state and local	7.4	21.2	55.3	68.7	70.1	71.3	74.2	75.5
				(as a percentage of total national health expenditures)				
National Health Expenditures	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private	62.2	57.6	59.5	55.4	54.1	53.8	53.9	54.5
consumer	56.3	52.6	55.0	51.0	49.8	49.4	49.2	50.0
direct payments (out of pocket)	34.0	24.4	20.7	17.7	17.2	17.1	17.4	17.4
private health insurance	22.3	28.2	34.3	33.3	32.6	32.2	31.9	32.6
other private	6.0	5.1	4.5	4.3	4.3	4.4	4.6	4.5
Public (government)	37.8	42.4	40.5	44.6	45.9	46.3	46.1	45.5
federal	24.3	29.1	27.9	31.8	32.8	33.4	33.4	32.8
Medicare	10.5	15.2	15.9	17.6	18.7	19.2	19.4	18.8
Medicaid	4.0	5.9	6.1	8.6	8.7	8.9	8.7	8.7
other federal	10.0	8.0	5.9	5.6	5.5	5.4	5.2	5.2
state and local	13.5	13.3	12.6	12.9	13.1	12.8	12.8	12.7
Medicaid	3.4	4.7	4.7	5.6	6.0	5.9	6.0	6.1
other state and local	10.1	8.6	7.9	7.2	7.1	6.9	6.8	6.6
				(as a percentage of gross domestic product)				
National Health Expenditures	7.1%	8.9%	12.2%	13.6%	13.7%	13.6%	13.4%	13.5%

Source: Katharine Levit et al., "Health Spending in 1998: Signals of Change," *Health Affairs* (January/February 2000): 124–132.

Chart 1
National Health Expenditures

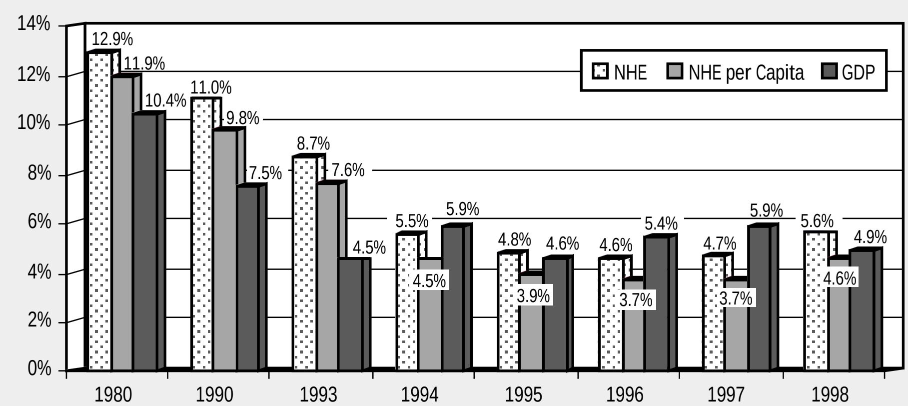


Source: Health Care Financing Administration.

Source: Health Care Financing Administration.

Source: Employee Benefit Research Institute.

Chart 2
National Health Expenditures (NHE) Average Annual Growth From Prior Year Shown, Selected Years 1980[a]-1998



Source: Katharine Levit et al., "Health Spending in 1998: Signals of Change," *Health Affairs* (January/February 2000): 124–132.
[a]Average annual growth between 1970 and 1980.

The Uninsured

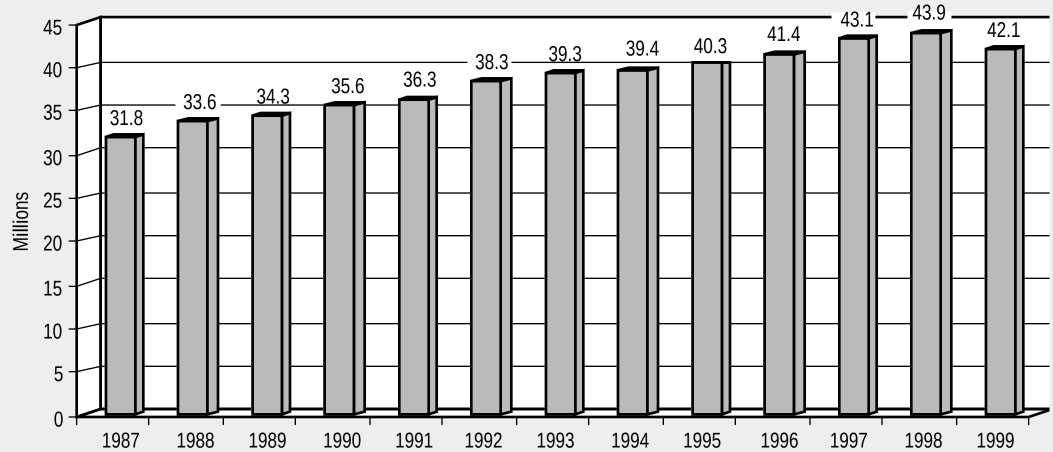
The percentage of nonelderly Americans (under age 65) without health insurance coverage declined from 18.4 percent in 1998 to 17.5 percent in 1999, a reduction from 43.9 million to 42.1 million (charts 1 and 2). (EBRI research focuses on the nonelderly since those 65 and older are automatically eligible for health insurance through Medicare, the federal program for the elderly and disabled.) For additional detail, see table 1 under Employment-Based Health Insurance, p. 33.

The main reason for the decline in the number of uninsured Americans is the strong economy and low unemployment. Since employment-based health insurance is by far the most common source of health coverage in the United States, it is not surprising that the lower rate of unemployment is beginning to translate into lower rates of uninsured. As a result of the strong economy, more workers and their dependents are covered by employment-based health insurance: Between 1998 and 1999 the percentage of nonelderly Americans covered by employment-based health insurance increased from 64.9 percent to 65.8 percent (chart 3). Employment-based health insurance coverage increased substantially for adult workers in 1999. In 1998, 72.8 percent of workers were covered by an employment-based health plan (chart 4). By 1999, 73.3 percent were covered.

The likelihood that a child is covered by employment-based health insurance has been increasing since 1994 (chart 5). In 1994, 58.1 percent of children were covered by employment-based health insurance. By 1999, 61.5 percent were covered. Because of declining enrollment in Medicaid (chart 6), the percentage of children without health insurance coverage has actually been growing over most of this period. However, between 1998 and 1999, the percentage of children without health insurance coverage declined dramatically from 15.4 percent to 13.9 percent (chart 7).

As long as the economy is strong and unemployment is low, employment-based health insurance coverage is likely to expand and the uninsured will gradually decline. However, if the economy softens or comes close to a recession, the uninsured would be expected to increase quickly again as unemployment rises.

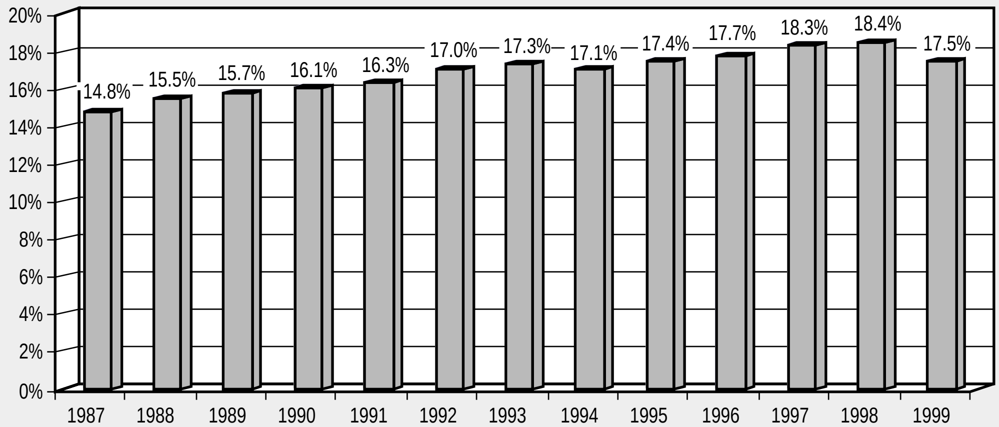
Chart 1
Number of Uninsured Americans Ages 0–64, 1987–1999 (millions)



Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 2

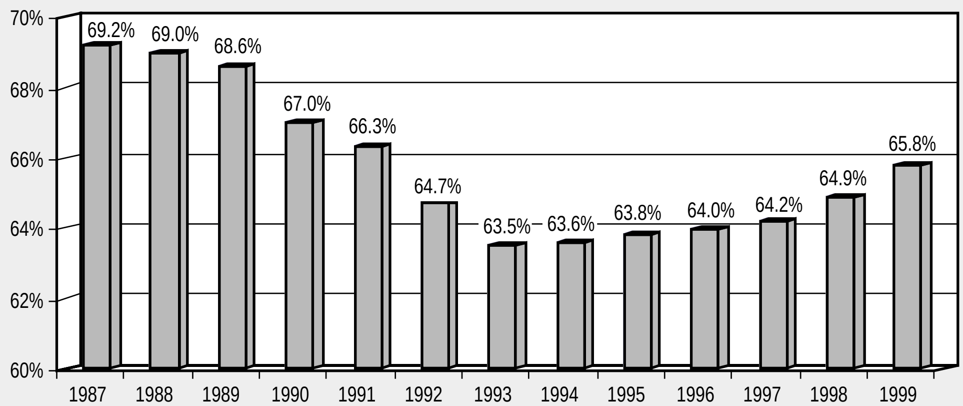
Percentage of Americans Ages 0–64 Without Health Insurance, 1987–1999



Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 3

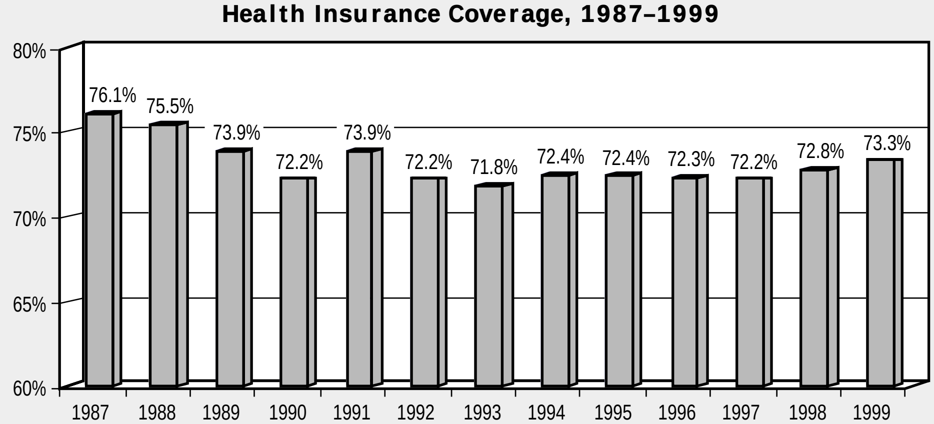
Percentage of Americans Ages 0–64 With Employment-Based Health Insurance Coverage, 1987–1999



Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

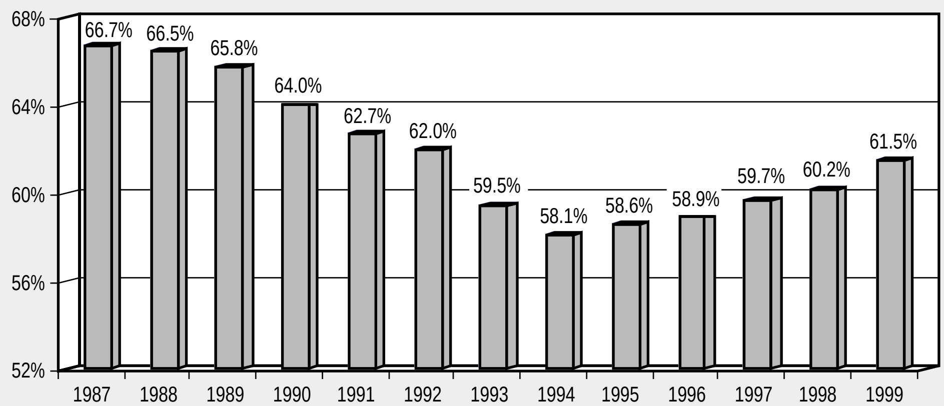
Chart 4

Percentage of Working Adults, Ages 18–64, With Employment-Based Health Insurance Coverage, 1987–1999



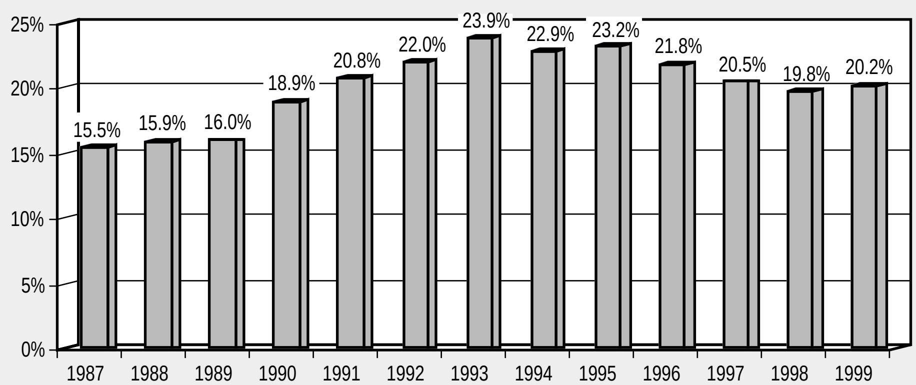
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 5
Percentage of Children, Ages 0–17, With Employment-Based Health Insurance Coverage, 1987–1999



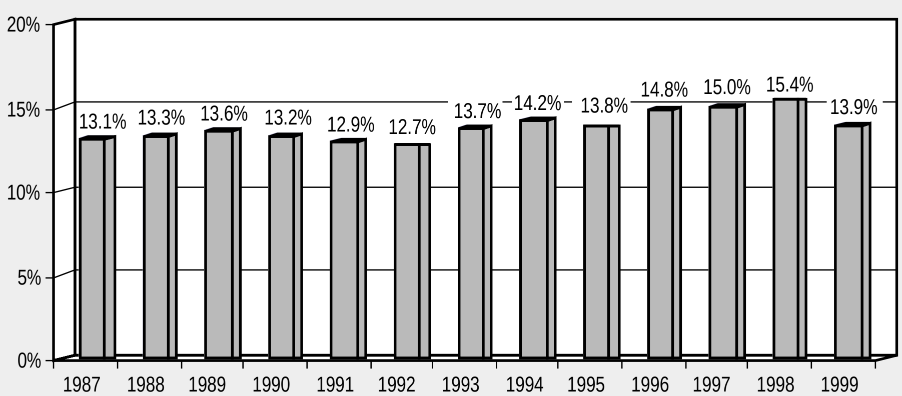
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 6
Percentage of Children, Ages 0–17, With Medicaid, 1987–1999



Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 7
Percentage of Children, Ages 0–17, Without Health Insurance Coverage, 1987–1999



Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Characteristics & Consequences of the Uninsured

Characteristics of the Uninsured

Employers offer health insurance on a voluntary basis. Because employers are not legally required to provide health insurance to workers and individuals are not required to maintain coverage, some segments of the working population will have coverage while others will not.

A number of factors characterize the uninsured, including:

- **Hours of Work:** There is a strong connection between hours of work and a worker's likelihood of being uninsured. Workers employed on a full-year, full-time basis had a below average chance of being uninsured, while all workers employed less than full year, full time had an above average chance of being uninsured in 1998 (chart 1).

- **Wages:** Workers with higher wages are less likely than those with lower wages to be uninsured. It appears that $10 per hour is the break point between above average and below average rates of uninsurance (chart 2).

- **Occupation:** The likelihood of being uninsured varies substantially with occupation. In general, white-collar workers are least likely and blue-collar workers are most likely to be uninsured, with service-collar workers falling in between (chart 3).

- **Industry:** Workers employed in the goods-producing sector are generally less likely to be uninsured than workers employed in the service sector (chart 4).

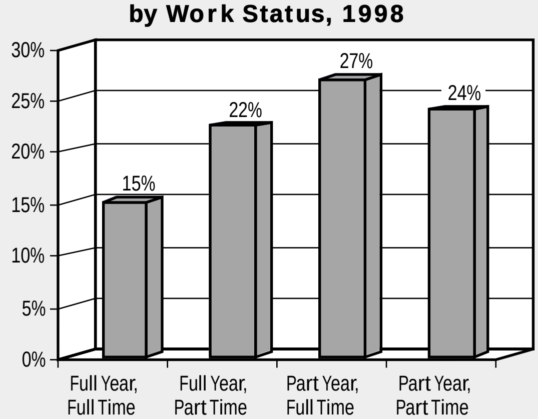
- **Firm Size:** Firm size is one of the most important determinants of health insurance coverage and whether a worker is uninsured. Workers in small firms are generally more likely than those in large firms to be uninsured (chart 5).

- **Education and Age:** Highly educated workers are less likely to be uninsured than workers with less education, and younger workers are more likely than older workers to be uninsured (charts 6 and 7).

- **Gender and Marital Status:** Male workers are more likely then female workers to be uninsured. Twenty percent of male workers and 16 percent of female workers were uninsured. Across all types of marital status, men were more likely than women to be uninsured (chart 8).

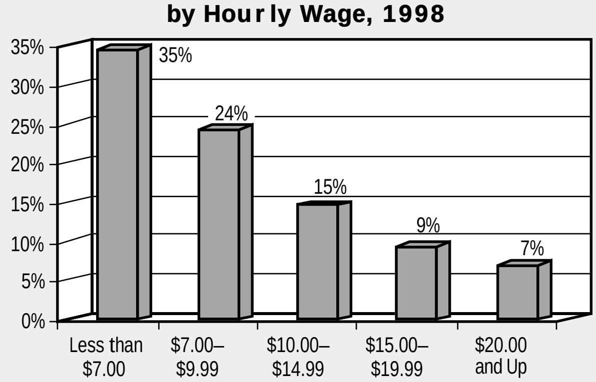
- **Race:** Minority workers are more likely to be uninsured than white workers. Specifically, 14 percent of white workers were uninsured in 1998, compared with 25 per-cent of African-American workers, 40 percent of Hispanic-American workers, and 21 percent of workers of other races (chart 9).

Chart 1
Percentage of Uninsured Workers, by Work Status, 1998



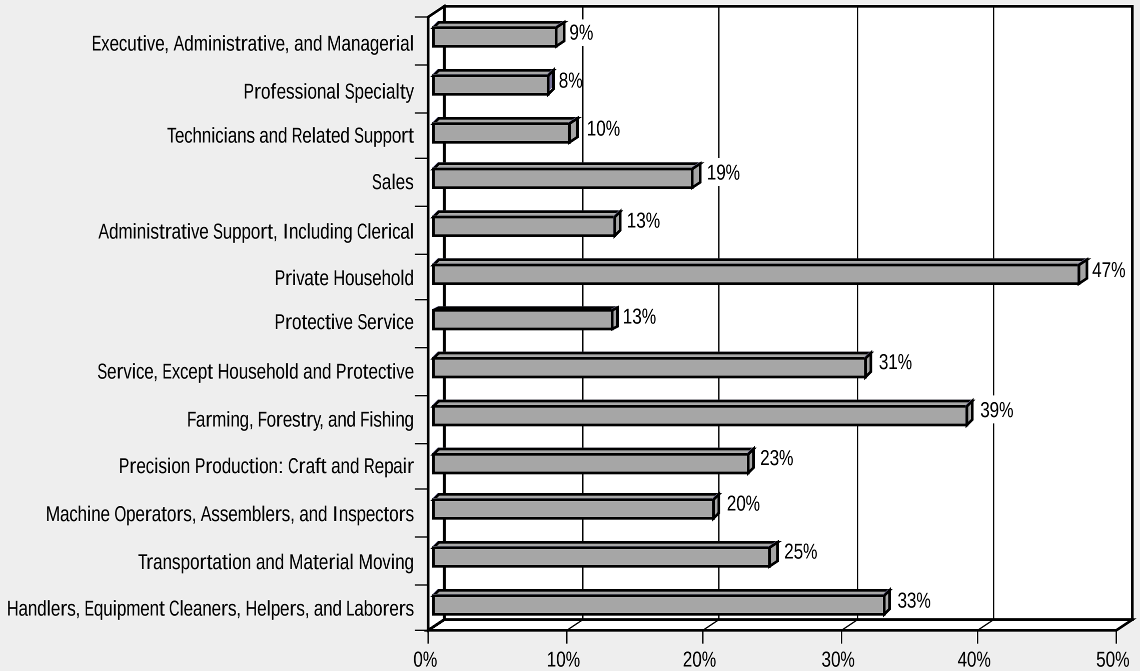
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 2
Percentage of Uninsured Workers, by Hourly Wage, 1998



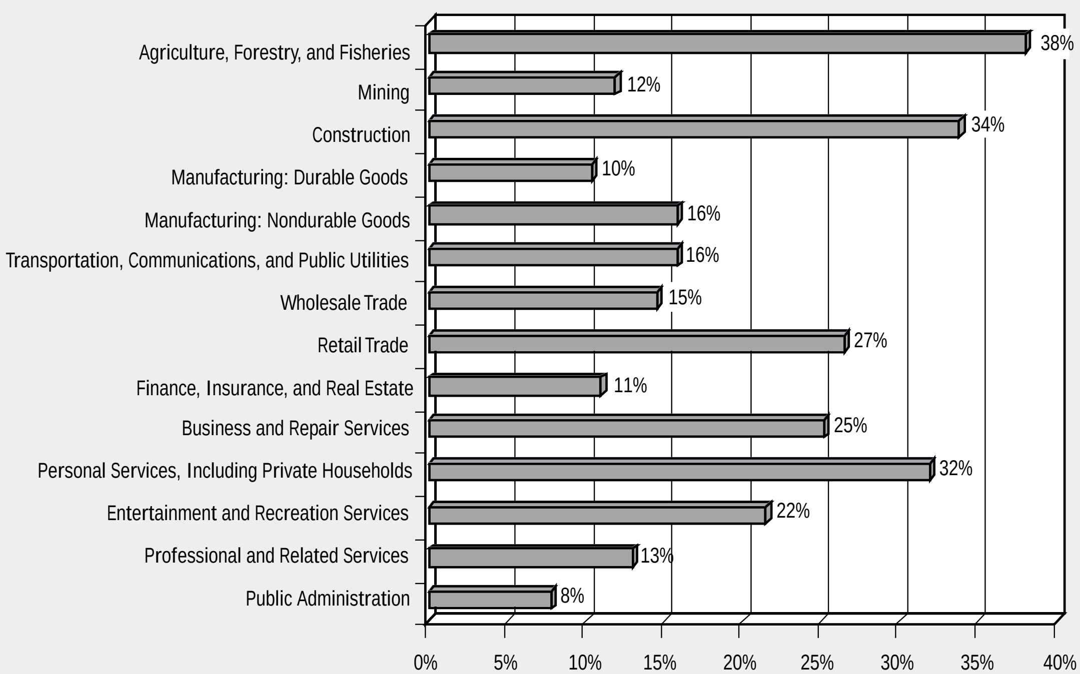
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 3
Percentage of Uninsured Workers, by Occupation, 1998



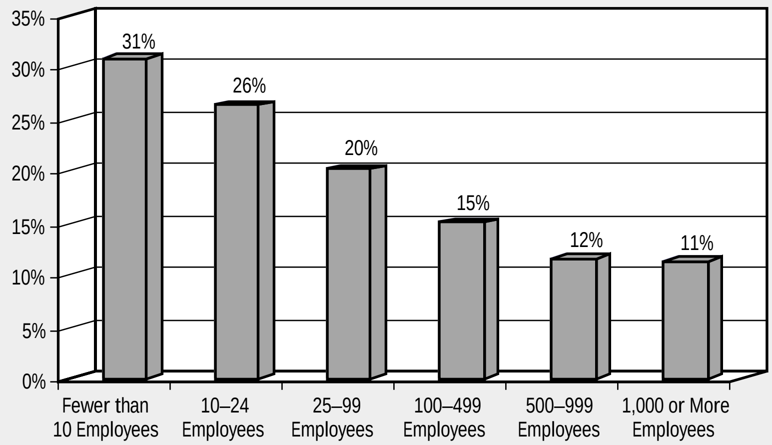
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 4
Percentage of Uninsured Workers, by Industry, 1998



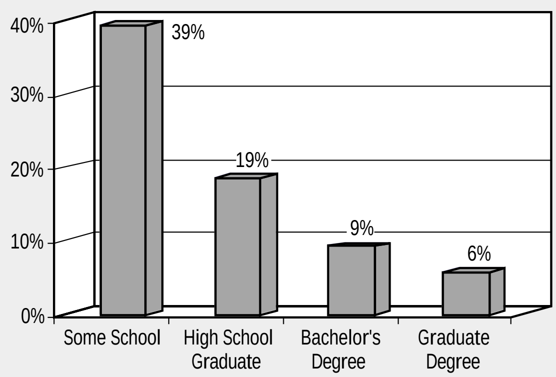
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 5
Percentage of Uninsured Workers, by Firm Size, 1998



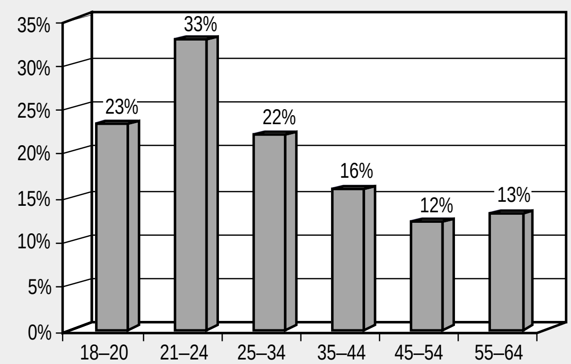
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 6
Percentage of Uninsured Workers, By Education, 1998



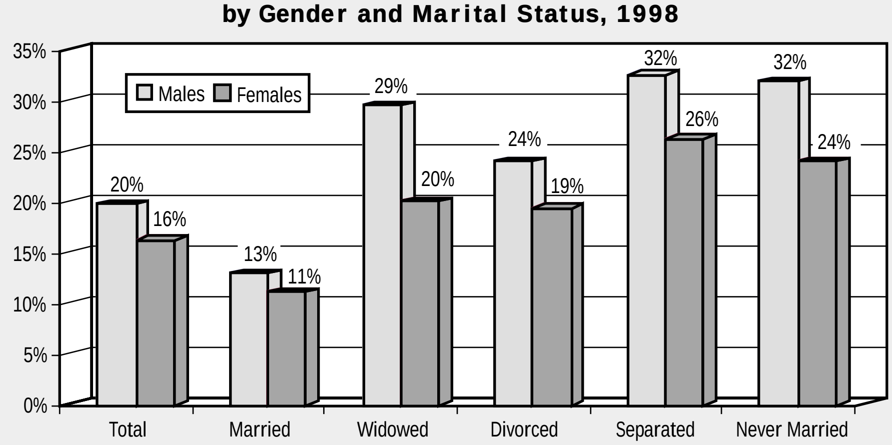
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 7
Percentage of Uninsured Workers, by Age, 1998



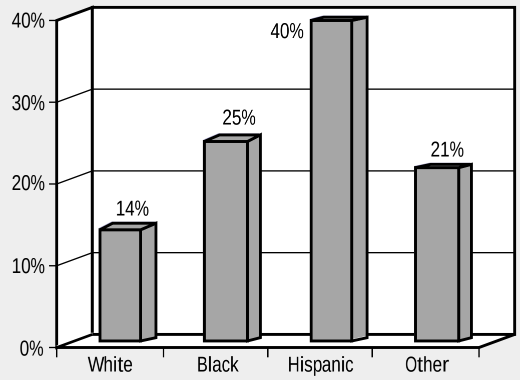
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 8
Percentage of Uninsured Workers, by Gender and Marital Status, 1998



Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Chart 9
Percentage of Uninsured Workers, by Race, 1998



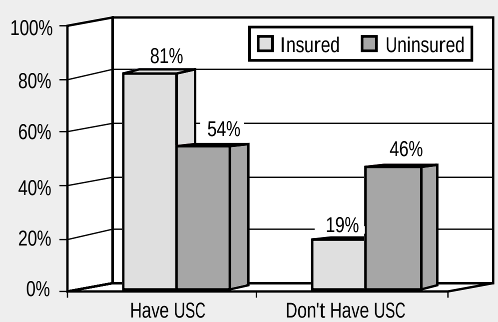
Source: Employee Benefit Research Institute estimates from the March 1999 Current Population Survey.

Consequences of Being Uninsured

Uninsured workers are less likely than insured workers to have a usual source of health care. As a result, uninsured workers are less likely to receive preventive health care than insured workers (charts 10, 11, and 12).

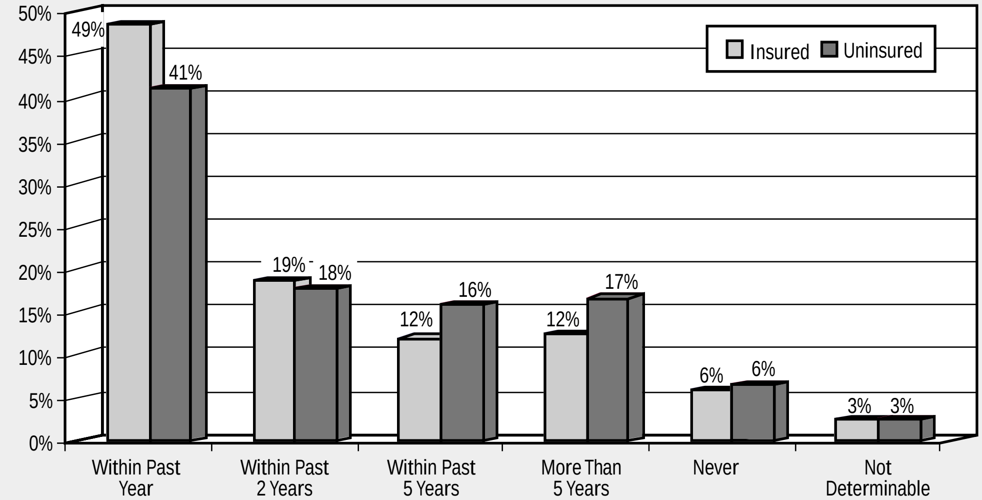
Uninsured workers also behave differently than insured workers. Specifically, uninsured workers are more likely than insured workers to put themselves at risk: For example, uninsured workers are more likely to smoke, while insured workers are more likely to get regular exercise, consume three or more daily servings of fruits and vegetables, and to always or nearly always wear their seat belt while in an automobile (charts 13, 14, 15, 16).

Chart 10
Percentage of Workers, Ages 18-64, With a Usual Source of Health Care (USC), by Insurance Status, 1996



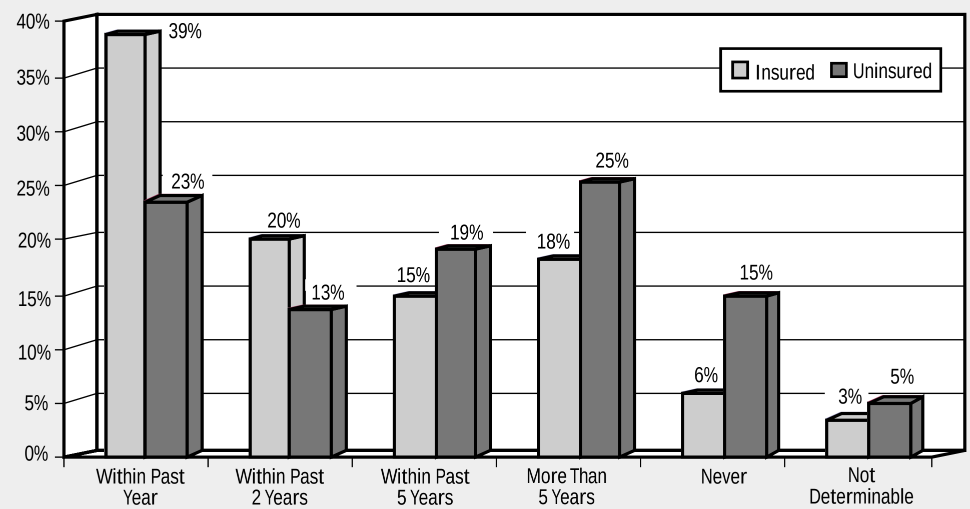
Source: Employee Benefit Research Institute estimates from the 1996 Medical Expenditure Panel Survey.

Chart 11
Time Since Last Complete Physical, Female Workers Ages 18–64, by Insurance Status, 1996



Source: Employee Benefit Research Institute estimates from the 1996 Medical Expenditure Panel Survey.

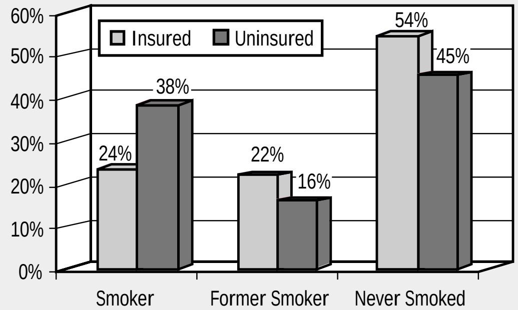
Chart 12
Time Since Last Complete Physical, Male Workers Ages 18–64, by Insurance Status, 1996



Source: Employee Benefit Research Institute estimates from the 1996 Medical Expenditure Panel Survey.

Chart 13

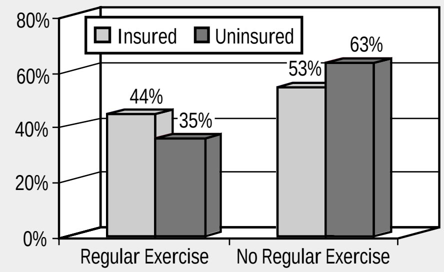
Percentage of Workers Ages 18–64 Who Smoke, by Insurance Status, 1998



Source: Employee Benefit Research Institute estimates from the 1998 Behavioral Risk Factor Surveillance System.

Chart 14

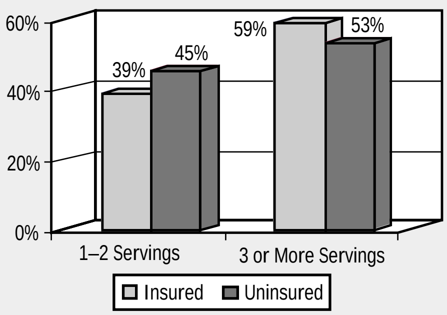
Percentage of Workers Ages 18–64 Who Exercise Regularly, by Insurance Status, 1998



Source: Employee Benefit Research Institute estimates from the 1998 Behavioral Risk Factor Surveillance System.

Chart 15

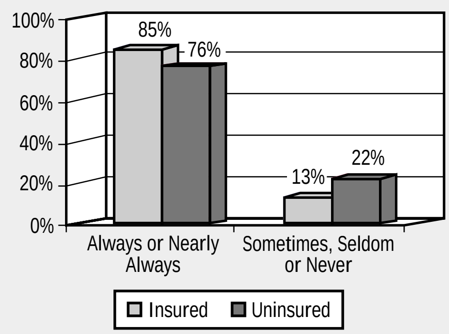
Vegetable and Fruit Consumption Among Workers Ages 18–64, by Insurance Status, 1998



Source: Employee Benefit Research Institute estimates from the 1998 Behavioral Risk Factor Surveillance System.

Chart 16

Seat Belt Use Among Workers Ages 18–64, by Insurance Status, 1997



Source: Employee Benefit Research Institute estimates from the 1997 Behavioral Risk Factor Surveillance System.

Employment-Based Health Insurance

Employment-based health plans are the most common source of health insurance among nonelderly individuals in the United States, providing coverage to nearly two-thirds of this population in 1997 (table 1).

Health Benefit Value/Satisfaction

Workers continue to rank their health benefits as the most important of several benefits. Sixty-five percent of workers view their health insurance benefits as most important. Defined benefit (DB) pension plans are ranked as most important for 6 percent of workers and 21 percent of workers view defined contribution (DC) retirement savings plans, such as a 401(k) plan, as most important (chart 1).

In general, most workers are satisfied with their benefits, although some would prefer more benefits while others would prefer more in the form of cash compensation (chart 2).

Health Benefit Sponsorship/Take-Up Rates

In 1997, 83 percent of the 108.1 million wage and salary workers in the United States were employed by a firm that sponsored a health plan. Of those workers, 75 percent were offered coverage, and 62 percent (or 67.5 million workers) were covered by that plan. Of those workers who worked for an employer that offered them a health plan, 83 percent participated in the plan (chart 3).

Sponsorship rates have barely changed in the last 11 years. In 1988, 83 percent of wage and salary workers reported that their employer sponsored a health plan. This declined slightly to 82 percent in 1993 but had increased to 83 percent by 1997.

Offer rates significantly changed between 1988 and 1997. In 1988, 82 percent of workers reported that they were eligible for health insurance through their employer. By 1993, the percentage of eligible workers declined to 74 percent, and it has only slightly increased since then to 75 percent in 1997.

Take-up rates vary significantly by size, with workers at larger firms electing health care coverage at a higher rate than workers at smaller firms (chart 4).

The 13.7 million workers who were offered coverage but declined it gave a number of reasons for doing so. In the majority of cases (61 percent), the worker was covered by another health plan. Of the remainder, 20 percent reported that health insurance was just too costly.

Tax Treatment of Health Benefits

Currently, health insurance premiums paid *by employers* are deductible for employers as a business expense, and are also excluded, without limit, from workers' taxable income. In addition, workers whose employers sponsor flexible spending accounts (FSAs) are able to pay for health care expenses with pretax dollars—meaning, they are not taxed on the amount of money that is put into the FSA.

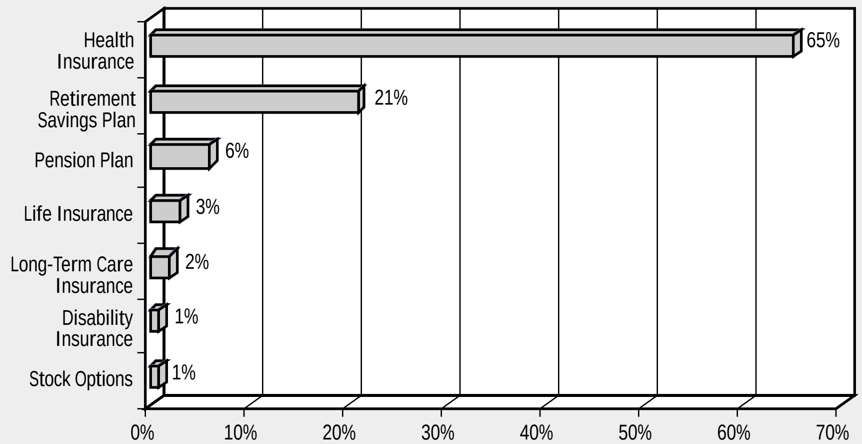
In contrast, *the self-employed* were able to deduct only 45 percent of the amount paid for health insurance during 1998. Furthermore, *for individuals* who do not receive employment-based health benefits, total health care expenses (including premiums) are deductible only if they exceed 7.5 percent of adjusted gross income, and only the amount that exceeds 7.5 percent of adjusted gross income is deductible.

Table 1
Nonelderly Americans With Selected Sources of Health Insurance Coverage, 1987–1999

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
							(millions)						
Total Population	214.4	216.6	218.5	220.6	222.9	225.5	228.0	229.9	231.9	234.0	236.2	238.6	240.7
Employment-Based Coverage	148.5	149.4	149.8	147.7	147.7	145.9	144.9	146.3	147.9	149.8	151.7	154.8	158.4
Own name	72.5	73.5	74.0	73.1	73.1	71.7	74.9	75.2	75.9	76.9	77.4	79.1	80.3
Dependent coverage	75.9	75.9	75.8	74.7	74.6	74.3	69.9	71.1	72.1	72.9	74.3	75.7	78.1
Individually Purchased	14.3	13.5	14.5	14.3	13.6	14.6	16.6	16.4	16.0	16.0	15.8	15.5	15.8
Public	28.5	28.8	28.7	31.9	34.4	36.0	38.1	38.9	38.4	37.4	34.9	34.2	34.1
Medicare	3.1	3.2	3.2	3.4	3.5	3.9	3.7	3.7	4.1	4.6	4.7	4.8	4.8
Medicaid	18.4	18.9	19.2	22.4	24.8	26.5	29.0	28.7	29.0	28.2	26.0	24.9	25.0
Tricare/CHAMPVA[a]	8.5	8.2	7.9	7.9	7.9	7.5	7.4	8.7	7.4	6.8	6.6	6.8	6.5
No Health Insurance	31.8	33.6	34.3	35.6	36.3	38.3	39.3	39.4	40.3	41.4	43.1	43.9	42.1
							(percentage)						
Total Population	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Employment-Based Coverage	69.2	69.0	68.6	67.0	66.3	64.7	63.5	63.6	63.8	64.0	64.2	64.9	65.8
Own name	33.8	33.9	33.9	33.1	32.8	31.8	32.9	32.7	32.7	32.9	32.8	33.1	33.4
Dependent coverage	35.4	35.0	34.7	33.8	33.5	32.9	30.7	30.9	31.1	31.2	31.5	31.7	32.4
Individually Purchased	6.7	6.3	6.6	6.5	6.1	6.5	7.3	7.1	6.9	6.8	6.7	6.5	6.6
Public	13.3	13.3	13.2	14.5	15.5	16.0	16.7	16.9	16.6	16.0	14.8	14.3	14.2
Medicare	1.4	1.5	1.5	1.6	1.6	1.7	1.6	1.6	1.8	2.0	2.0	2.0	2.0
Medicaid	8.6	8.7	8.8	10.2	11.1	11.8	12.7	12.5	12.5	12.1	11.0	10.4	10.4
Tricare/CHAMPVA[a]	4.0	3.8	3.6	3.6	3.5	3.3	3.3	3.8	3.2	2.9	2.8	2.9	2.7
No Health Insurance	14.8	15.5	15.7	16.1	16.3	17.0	17.3	17.1	17.4	17.7	18.3	18.4	17.5

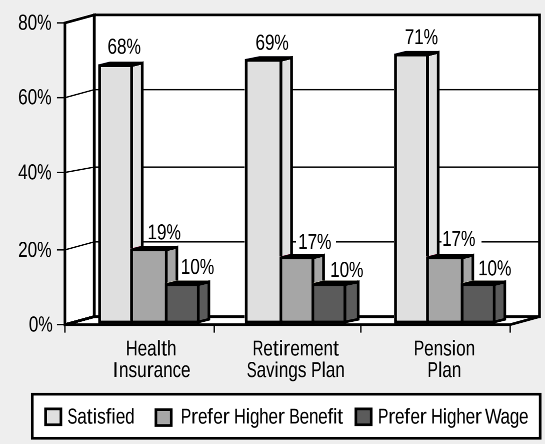
Source: Employee Benefit Research Institute estimates from the March 1988–2000 Current Population Survey.
Note: Details may not add to totals because individuals may receive coverage from more than one source.
[a]Tricare (formerly known as CHAMPUS) is a program administered by the Department of Defense 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.

Chart 1
Most Important Employee Benefit



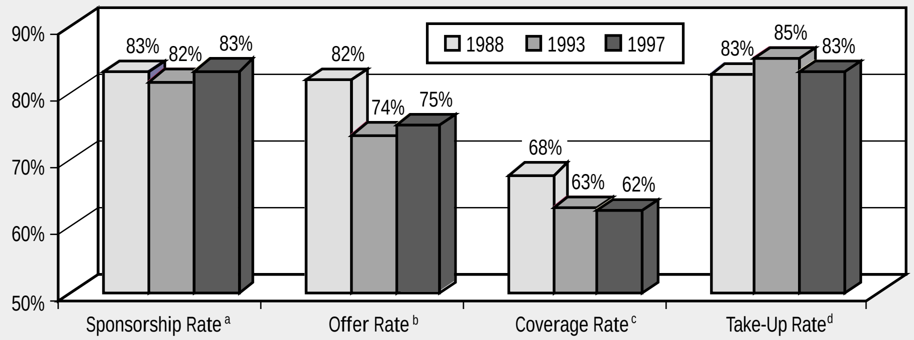
Source: Employee Benefit Research Institute, WorldatWork, 1999 WorldatWork/EBRI Value of Benefits Survey.

Chart 2
Satisfaction with Mix of Benefits and Wages



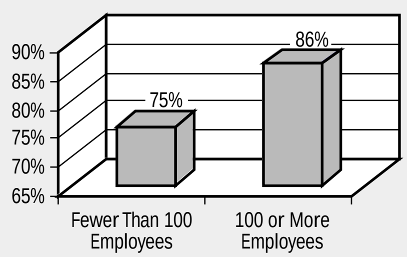
Source: Employee Benefit Research Institute, WorldatWork, 1999 WorldatWork/EBRI Value of Benefits Survey.

Chart 3
Employment-Based Health Insurance Sponsorship, Offer, Coverage, and Take-Up Rates Among Wage and Salary Workers Ages 18–64, 1988, 1993, and 1997



Source: Employee Benefit Research Institute estimates from the May 1988, April 1993, and February 1997 Current Population Survey.
[a]Sponsorship rate = percentage of workers who report that their employer offers health benefits for any workers.
[b]Offer rate = percentage of workers who are offered health insurance by their employer.
[c]Coverage rate = percentage of all workers participating in their employer's health plan.
[d]Take-up rate = percentage of workers offered health insurance who participate in employer's health plan.

Chart 4
Take-Up Rates Among Workers Ages 18–64 Offered Health Insurance by Own Employer, by Firm Size, 1997



Source: Employee Benefit Research Institute estimates from the February 1997 Current Population Survey.

Managed Care

The managed care industry has developed in recent years in response to inflation in the cost of health care. Prepaid group practices have been in existence since the 19th century in the mining and lumber industries, but they did not become a major alternative to traditional fee-for-service health plans until passage of the Health Maintenance Organization (HMO) Act of 1973. Although managed care arrangements are often thought to include only HMOs, they consist of any type of intervention in the provision of health care services or reimbursement of health care providers that is intended to provide health care services in the most efficient manner.

In general, managed care arrangements range from fully integrated models, such as staff and group model HMOs, which limit patient choice of health care providers, to less restrictive arrangements, such as independent practice associations (IPAs), preferred provider organizations (PPOs), and point-of-service (POS) plans. Traditional indemnity health plans also have begun to incorporate features of managed care into their plans. Indemnity plans with utilization review (UR) are known as managed indemnity plans.

Basically, managed care uses groups or networks of providers, has explicit criteria for selecting providers, and/or subjects providers to UR. Participants in managed care plans usually are given financial incentives to use selected health care providers.

Enrollment in managed care plans has increased substantially. The percentage of insured Americans enrolled in a fee-for-service plan declined from 58.9 percent in 1992 to 28.3 percent in 1997 (chart 1), (table 1). Most of the growth in managed care enrollment has been in PPOs, which increased from 23.1 percent of the insured population in 1992 to 39.6 percent in 1997. Managed care enrollment is more dramatic among the privately insured (individually purchased plans and employment-based plans), than among the publicly insured (Medicare and Medicaid). In 1997, 21.2 percent of privately insured individuals were enrolled in a fee-for-service plan, compared with 80.5 percent of publicly insured individuals (table 1). PPOs were the most popular type of managed care plan offered, increasing from 23 percent of the total insured population in 1992 to 43 percent in 1998 (chart 1). As a result, enrollment in managed care plans among workers has been increasing (chart 1).

In 1980, nearly all (98 percent) of full-time employees who participated in an employment-based health plan in medium and large private establishments were participating in a fee-for-service plan. This percentage declined to 27 percent by 1997 (chart 2). Health care delivery systems can be arranged on a spectrum according to the degree of financial control the employer (payer) has over patient choice (chart 3). At one end of the spectrum is the fee-for-service (or traditional indemnity) plan with no managed care elements. At the other end is the staff model HMO, with the most strict managed care elements. Between these two extremes are fee-for-service plans with managed care features, PPOs, and less restrictive HMOs. Finally, as health care delivery systems evolve and employers become more involved in the design of corporate benefit plans, hybrid plans are developing that combine elements of the HMO and PPO in an attempt to balance freedom of choice for the employee and financial control for the employer.

Chart 1
Health Insurance Coverage by Plan Type (Total Insured Population), 1992 and 1998

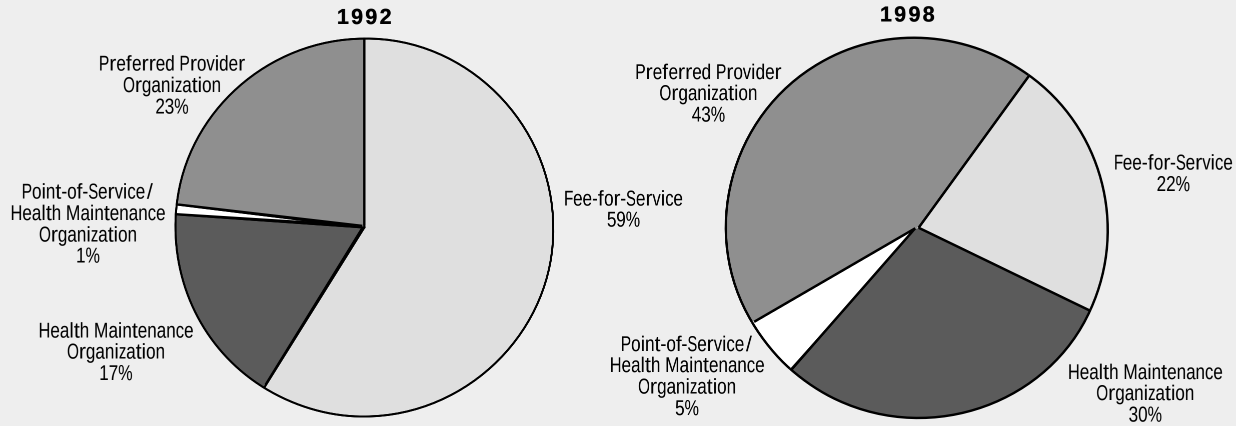


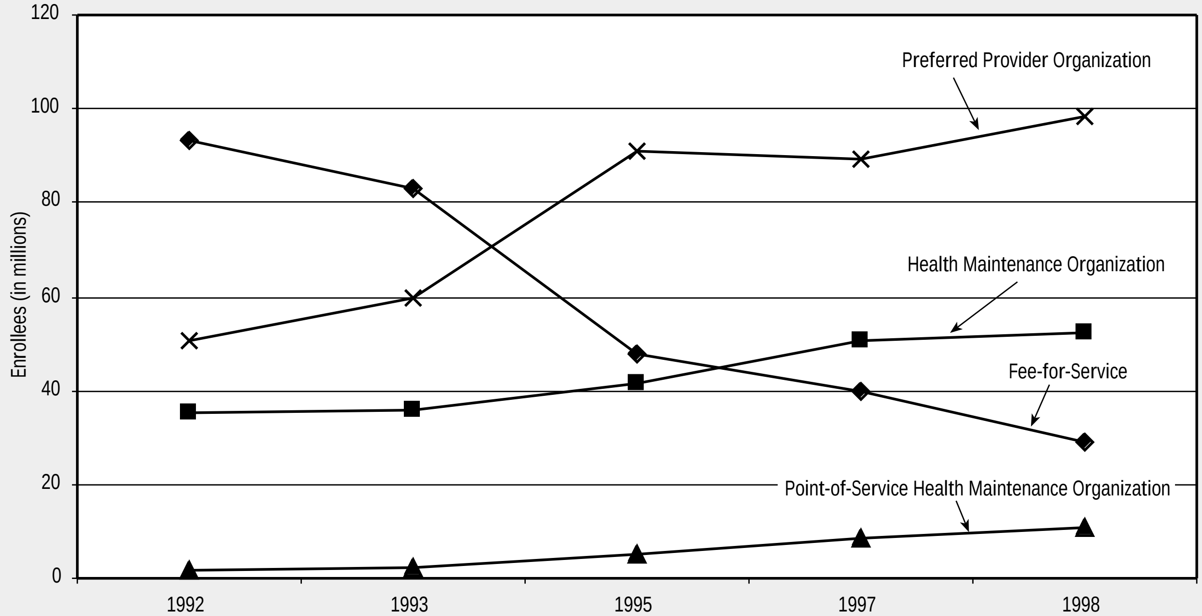
Table 1
Number and Percentage Distribution of Individuals With Health Insurance Coverage, 1992–1998

	1992		1993		1995		1997		1998	
	Enrollment (millions)	Percentage of total insured population	Enrollment (millions)	Percentage of total insured population	Enrollment (millions)	Percentage of total insured population	Enrollment (millions)	Percentage of total insured population	Enrollment (millions)	Percentage of total insured population
Public and Private Coverage										
Total insured	217.7	100.0%	219.1	100.0%	223.0	100.0%	224.9	100.0%	226.7	100.0%
FFS[a]	128.2	58.9	116.8	53.3	78.1	35.0	63.7	28.3	58.9	21.9
HMO[b]	37.2	17.1	39.8	18.2	48.3	21.7	63.3	28.1	67.7	29.9
POS-HMO[c]	1.9	0.9	2.5	1.1	5.5	2.5	8.7	3.9	11.0	4.9
PPO[d]	50.4	23.1	60.0	27.4	91.0	40.8	89.1	39.6	98.3	43.4
Public Coverage										
Total insured	65.8	100.0	67.6	100.0	69.0	100.0	65.8	100.0	65.4	100.0
FFS	63.5	96.5	63.3	93.6	62.0	89.8	53.0	80.5	49.6	75.8
HMO	2.0	3.0	4.1	6.1	6.5	9.5	12.6	19.2	15.7	24.0
POS-HMO	0.3	0.5	0.2	0.3	0.5	0.7	0.2	0.3	0.2	0.3
Medicare										
Total insured	33.6	100.0	33.1	100.0	34.6	100.0	35.6	100.0	35.9	100.0
FFS	e	e	30.7	92.8	31.1	89.7	30.2	84.9	29.5	82.1
HMO	e	e	2.2	6.6	3.1	8.8	5.2	14.6	6.2	17.3
POS-HMO	e	e	0.2	0.6	0.5	1.4	0.2	0.5	0.2	0.6
Medicaid										
Total insured	29.4	100.0	31.7	100.0	31.8	100.0	28.9	100.0	27.9	100.0
FFS	e	e	29.8	93.9	28.3	89.1	21.5	74.3	18.4	66.0
HMO	e	e	1.9	6.1	3.5	10.9	7.4	25.7	9.5	34.0
Private Coverage										
Total insured	180.4	100.0	181.1	100.0	185.7	100.0	188.2	100.0	190.4	100.0
FFS	93.1	51.6	83.1	45.9	47.8	25.8	39.8	21.2	29.2	15.3
HMO	35.2	19.5	35.7	19.7	41.8	22.5	50.7	26.9	52.1	27.3
POS-HMO	1.6	0.9	2.3	1.3	5.0	2.7	8.6	4.6	10.8	5.7
PPO	50.4	27.9	60.0	33.1	91.0	49.0	89.1	47.3	98.3	51.6

Sources: Employee Benefit Research Institute tabulations of data from March 1993-1999 Supplements to the Current Population Survey; *InterStudy, The InterStudy Competitive Edge,* Vol. 2 and 3, no. 2, 1993 and 1994, *The InterStudy Competitive Edge* 5.1, 6.1, 8.1, and 9.1 Part II: Industry Report (Excelsior, MN: InterStudy, 1993–1999); and American Association of Health Plans, 1995-1996 *Managed Health Care Overview* (Washington, DC: American Association of Health Plans, 1996), and unpublished data from the American Association of Health Plans.

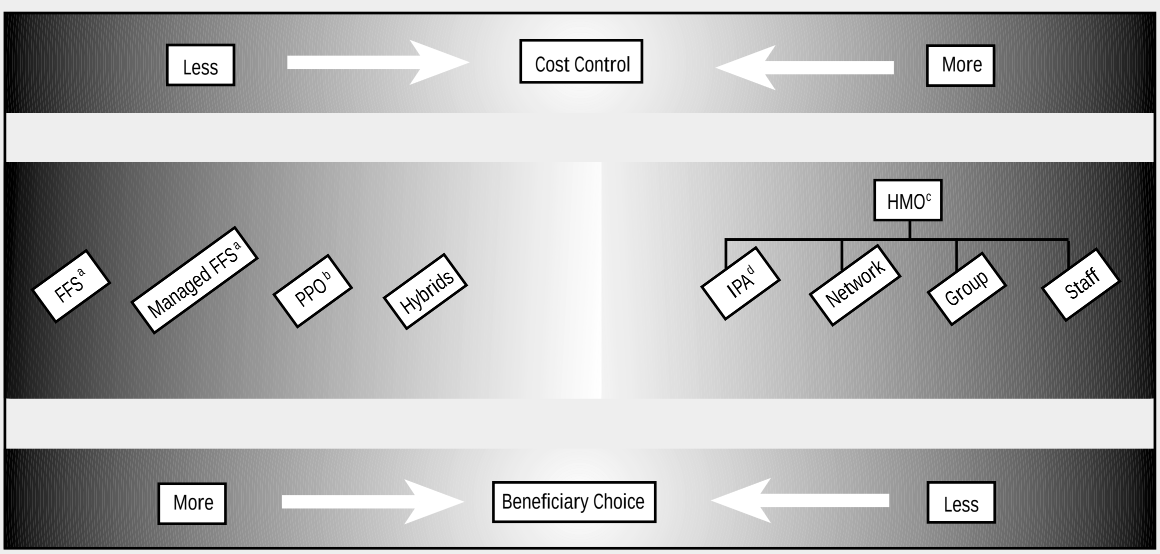
[a]Fee-for-service.
[b]Health maintenance organization.
[c]Point-of-service health maintenance organization.
[d]Preferred provider organization.
[e]Data not available.

Chart 2
Medical Plan Participation, by Plan Type
Distribution of Individuals With Private Health Insurance Coverage, 1992-1998



Sources: Employee Benefit Research Institute tabulations of data from March 1993-1999 Supplements to the Current Population Survey*; InterStudy, The InterStudy Competitive Edge,* Vol. 2 and 3, no. 2, 1993 and 1994, *The InterStudy Competitive Edge* 5.1, 6.1, 8.1, and 9.1 Part II: Industry Report (Excelsior, MN: InterStudy, 1993–1999); and American Association of Health Plans, 1995-1996 *Managed Health Care Overview* (Washington, DC: American Association of Health Plans, 1996), and unpublished data from the American Association of Health Plans.

Chart 3
Health Care Delivery System Spectrum:
Plan Types Arranged by Cost Control and Choice



Source: Sarah Snider, "Features of Employer-Sponsored Health Plans," *EBRI Issue Brief* no. 128 (Employee Benefit Research Institute, 1992).
[a]Fee for service.
[b]Preferred provider organization.
[c]Health maintenance organization.
[d]Independent practice association.

The Basics of Medicare

Medicare is the federal health care insurance program for the elderly and disabled. The program became law on July 30, 1965, as Title XVIII of the Social Security Act. The legislation created a health insurance program for elderly persons to complement the retirement, survivors, and disability insurance benefits under Title II of the Social Security Act. It was expanded in 1973 to disabled individuals receiving disability benefits from Social Security or Railroad Retirement, and to certain individuals with end-stage renal disease.

Medicare consists of two parts:

- *Part A, Hospital Insurance (HI),* which provides benefits for hospital care, skilled nursing facility care, home health services, and hospice care.
- *Part B, Supplemental Medical Insurance (SMI),* which provides benefits for various health care services and equipment not covered by Part A.

Medicare Enrollment: Between 1967 and 1997, the number of elderly persons enrolled in the Medicare program increased at an average annual rate of 1.9 percent—from 19.5 million to 33.6 million. During that period, the number of disabled individuals enrolled in the program increased at an average annual rate of 4.2 percent—from 1.9 million to 4.8 million.

Medicare Beneficiaries Served: Between 1974 and 1997, the average annual rate of increase in the number of persons served (i.e., those individuals actually receiving medical care), increased at a rate of 4.6 percent for elderly persons, and at a rate of 7.1 percent for disabled individuals.

Medicare Finances

Because of the growing federal budget surplus, the HI trust fund experienced substantial improvements from the 1999 Trustees report to the 2000 Trustees report. Due to these improvements, the HI trust fund now meets the trustees' test of short-range (2000–2009) financial adequacy for the first time since 1991. Under intermediate assumptions, the HI trust fund is estimated to be depleted in 2023, a substantial improvement over prior estimates. As the Medicare population grows as percentage of the national population, program costs will also increase: As a percentage of gross domestic product (GDP), Medicare accounted for 2.6 percent of GDP in 1995, and Medicare costs are expected to grow to 4.5 percent of GDP by 2010 (table 1).

Medigap

Although Medicare eases many of the elderly's financial worries, it does not cover 100 percent of all medical services. Medicare's deductibles and copayments can be high, particularly for a long hospital stay. Medicare does not cover all medical services—most notably, it excludes maintenance prescription drugs, eye exams and glasses, hearing aids, and dental services.

To help meet the cost of these services, the elderly frequently purchase supplementary health insurance policies. The two most common forms of these policies are Medigap policies, which are purchased in the individual market, and retiree health insurance, which is available through a past employer. Employers are increasingly requiring retirees to pay for a portion or all of this insurance.

Table 1
Projected Medicare Enrollment and Costs

Medicare, Combined Hospital and Supplementary Medical Insurance, Enrollment, and Costs Projected to 2070, under 1996 Law

Calendar Year	Enrollment as a Percentage of Population	Costs as a Percentage of GDP[a]	Premiums as a Percentage of GDP[a]	Net Costs as a Percentage of GDP[a]	Premiums as a Percentage of: Medicare costs	Premiums as a Percentage of: Enrollee income[b]
1995	13.6%	2.6%	0.3%	2.3%	11.0%	3.4%
2010	15.1	4.5	0.3	4.2	5.9	2.8
2030	22.0	7.5	0.3	7.2	4.4	2.4
2050	22.9	8.1	0.3	7.8	3.4	1.9
2070	24.5	8.8	0.2	8.5	2.7	1.5

Source: Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options* (Washington, DC: U.S. Government Printing Office, 1996).
Note: Under current (1996) law, Hospital Insurance (HI) trust fund receipts are projected to be about 1.5 percent of Gross Domestic Product (GDP) throughout the period.
[a]Gross Domestic Product.
[b]Enrollee's average income is assumed to increase at the same rate as GDP per capita.

Medicare Finances, Updated With the 2000 Board of Trustees Report

- In 1965, Title 18, "Health Insurance for the Aged," of the Social Security Act created the Medicare program. Medicare consists of two parts: Part A, Hospital Insurance (HI), covers hospital services and some home health care and skilled nursing facility services, and Part B, Supplemental Medical Insurance (SMI), covers physician care, outpatient hospital services, and independent laboratory services. In 1972, the Medicare program was expanded to include disabled persons who qualified for benefits under the Disability Insurance (DI) program and certain individuals with end-stage renal (kidney) disease. All state and local government employees hired after Dec. 31, 1985, were included in the program.
- Currently, the U.S. Department of the Treasury credits the Medicare and Social Security trust funds with any annual excess of Social Security and Medicare tax revenues over the amount spent for current benefits. By law, these assets must be invested in special securities issued by the Treasury. The government then spends these "assets" to ease fiscal pressures on other programs, or as is currently the case, paying off government debt. The trust fund surpluses are not reserved for future Social Security and Medicare benefits but are bookkeeping entries showing how much the Social Security and Medicare programs have lent to the Treasury (or alternatively, what is owed to Social Security and Medicare, including interest, by the Treasury). When the trust funds go into negative cash flow, the Treasury must start repaying the money.
- For budgetary purposes, the date on which the trust funds go into negative cash flow (i.e., the benefit payments exceed the income from payroll taxes and the taxation of benefits) is significant because it marks the point at which the government must provide cash from general revenues to the programs rather than receive surplus cash from them to fund other current spending.
- The Balanced Budget Act of 1997 contained numerous provisions affecting the Medicare program. These provisions were designed in part to postpone the imminent depletion of the HI trust fund, which had been projected for 2001. Under this legislation, fund exhaustion is postponed until 2025, based on the intermediate assumptions used in the Board of Trustees' report.
- The SMI trust fund is financed on a year-by-year basis. The SMI program derives its revenues from premium payments by beneficiaries and general revenues from the federal budget. Under current law, no more than 25 percent of SMI's revenues can come from premium payments.
- HI payroll taxes for 2000 were based on a combined employer/employee rate of 2.9 percent. The Omnibus Budget Reconciliation Act of 1993 completely removed any wage base limit for the HI payroll tax, effective Jan. 1, 1994. For years 2001 and afterward, the payroll tax is scheduled to be 2.9 percent. In 1999, total income for the HI trust fund was $151.6 billion: $132.3 billion was from payroll taxes, $6.6 billion was from taxation of Social Security benefits, $9.8 billion was from interest income, and $2.9 billion was from miscellaneous revenue.
- Medicare serves the elderly and disabled workers who qualify for DI benefits. Enrollment in Part A (HI) is mandatory, while enrollment in Part B (SMI) is voluntary. In 1999, 34 million elderly and 5 million disabled individuals were enrolled in Part A, and 32 million elderly and 5 million disabled individuals were enrolled in Part B.
- In 1999, the average amount reimbursed per enrollee in Part A was $3,310. The average amount reimbursed per enrollee in Part B was $2,178.
- Administrative costs for the Medicare program are low. In 1999, administrative costs for Part A were $1.9 billion or 1 percent of expenditures, and for Part B they were $1.6 billion or 2 percent of expenditures.
- The Medicare+Choice Program was created by Congress in the Balanced Budget Act of 1997 to allow more types of health insurance plans, including managed care plans, to serve Medicare beneficiaries. In 1998, 6.2 million Medicare beneficiaries (16 percent of Medicare beneficiaries) were enrolled in a Medicare HMO. Since 1998, most HMO contracts with the federal Health Care Financing Administration have operated under the Medicare+Choice Program.
- In 1999, 41 Medicare+Choice organizations chose not to renew their Medicare+Choice contracts, and 58 reduced their service areas for year 2000. As a result of those business decisions, more than 327,000 Medicare beneficiaries were affected and about 79,000 were left with no Medicare managed care option.
- In 2000, 65 Medicare+Choice organizations chose not to renew their Medicare+Choice contracts, and 53 reduced their service areas for year 2001. As a result of those business decisions, more than 934,000 Medicare beneficiaries were affected and about 159,000 were left with no Medicare managed care option.

- Using 2000 enrollment (to account for generally larger enrollment in higher payment areas), the monthly enrollment-weighted average payment per member in 2001 is estimated to be about $573. The weighted average payment rate in 2001 for counties affected by nonrenewals is estimated to be about $541, or about 95 percent of the national weighted average payment rate.
- Although enrollees in lower payment-rate areas are more likely to be affected by nonrenewals, beneficiaries in higher payment areas are also affected. About one-third of enrollees in counties with the floor payment rate of $415 in 2001 are affected by nonrenewals. About 18 percent of enrollees living in counties with a payment rate of less than the national enrollment weighted average are affected by withdrawals, compared with about 11 percent of beneficiaries in counties with a higher than average payment rate.
- The U.S. Treasury secretary acts as the managing trustee and the administrator of the Health Care Financing Administration acts as the secretary of the Medicare trust funds. The other trustees include: the secretary of Labor; the secretary of Health and Human Services; the commissioner of Social Security; and two private-sector members.

Other Benefit Topics

Finances of Employee Benefits

The employee benefit system in the United States is financed by a combination of payments from employers, workers, and (for the elderly, disabled or indigent) the government.

Over the past 30 years, retirement income-related benefits have remained the dominant type of benefit that individuals receive: Of all benefit dollars, about 47 percent went to retirement income, essentially unchanged from 1970. The major growth has come in health benefits, which increased from 21 percent of all benefits received in 1970 to 30 percent in 1999. The increase in health benefits came at the expense of other benefits, such as unemployment insurance, workers compensation, and group life insurance (table 1, chart 1).

Over the same period, employers have increased the relative proportion of compensation that they spend on benefits. Spending on wages and salaries decreased 4 percentage points between 1970 and 1999 (from 89 percent in 1970 to 85 percent in 1999), while spending on benefits increased by a like amount (from 11 percent in 1970 to 15 percent in 1999) (table 2, chart 2).

Workers are spending proportionately more on both retirement and health benefits today than they were 30 years ago. Retirement income accounted for 25 percent and health benefits accounted for 9 percent of personal spending for benefits in 1970, compared with 46 percent and 27 percent, respectively, in 1999 (table 3, chart 3).

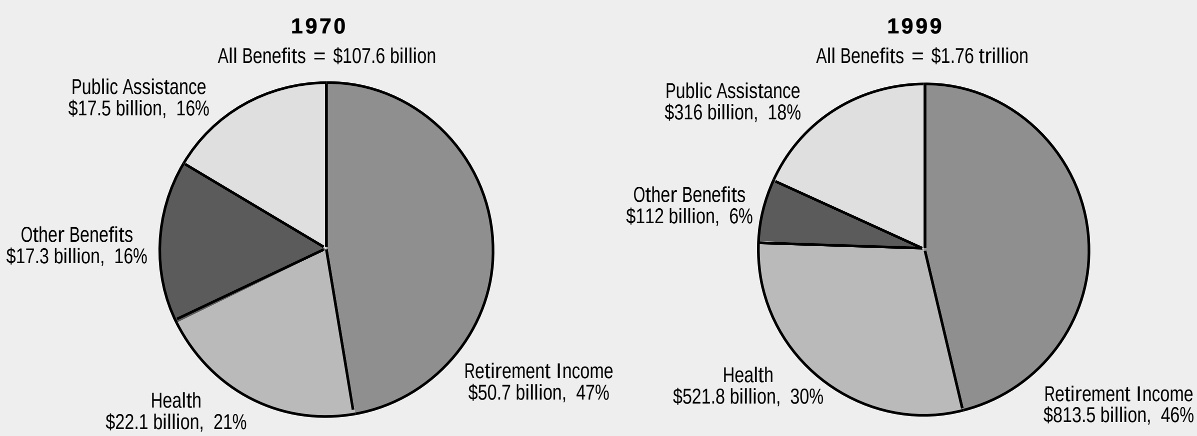
Table 1
Selected Payments to Individuals from the Employee Benefit System, by Function, Selected Years 1960–1999

	1960	1970	1980	1990	1997	1998	1999
				($ billions)			
All Benefits	$34.6	$107.6	$421.7	$1,033.9	$1,616.3	$1,683.9	$1,763.3
Retirement Income Benefits	16.8	50.7	201.8	485.6	735.1	776.2	813.5
Social Security Old-Age, Survivors, and Disability Insurance	11.1	31.4	118.6	244.1	356.6	369.3	379.9
Private employer pension and profit sharing	1.7	7.4	35.3	139.9	217.4	238.5	255.2
Public employer retirement plans	4.0	11.9	47.8	101.6	161.1	168.4	178.4
federal civilian employee retirement[a]	0.9	3.0	15.5	32.0	44.1	45.9	47.3
state and local government retirement	1.4	4.0	15.1	40.6	78.2	82.9	90.7
military retirement[b]	0.8	3.2	12.5	21.9	30.6	31.4	32.2
railroad retirement	0.9	1.7	4.8	7.2	8.2	8.2	8.2
Health Benefits	4.3	22.1	98.4	302.8	484.6	502.2	521.8
Medicare Hospital Insurance and Supplementary Medical Insurance	0.0	7.1	35.6	107.9	209.2	208.8	208.1
Group health insurance	4.3	14.8	62.4	193.4	274.2	292.3	312.6
Military health insurance[c]	0.0	0.2	0.4	1.5	1.2	1.1	1.1
Other Employee Benefits	9.4	17.3	51.2	88.9	106.2	108.7	112.0
Unemployment insurance[d]	3.1	4.2	16.1	18.3	20.1	19.8	20.9
Workers' compensation[e]	1.5	3.0	12.5	39.0	45.7	46.2	47.1
Group life insurance	1.1	2.9	6.6	12.3	17.0	18.2	18.3
Miscellaneous disability[f]	0.1	0.5	2.6	3.6	3.1	3.2	3.1
Veterans' benefits[g]	3.7	6.6	13.4	15.8	20.3	21.3	22.2
Public Assistance, etc.[h]	4.1	17.5	70.3	156.6	290.4	296.8	316.0

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/bea/bench.htm and U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Vol. 80, no. 8, August 2000 (Washington, DC: U.S. Government Printing Office, 2000).

[a]Consists of civil service, foreign service, Public Health Service officers, Tennessee Valley Authority, and several small retirement programs.
[b]Includes the U.S. Coast Guard.
[c]Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.
[d]Consists of state, railroad employee, and federal employee unemployment benefits; special unemployment benefits; and supplemental unemployment benefits.
[e]Includes payments from private, federal, and state and local workers' compensation funds.
[f]Includes federal black-lung payments and payments from state and local temporary disability insurance.
[g]Consists of pension and disability, readjustment, and other veterans' benefits.
[h]Consists of federal benefits (food stamp benefits, Supplemental Security Income, direct relief, earned income credit, payments to nonprofit institutions, aid to students, and payments for medical services for retired military personnel and their dependents at nonmilitary facilities) and state benefits (medical care, Aid to Families with Dependent Children, Supplemental Security Income, general assistance, energy assistance, emergency assistance, and medical insurance premium payments on behalf of indigents). Financed from state and federal general revenues.

Chart 1
Benefits Received by Individuals



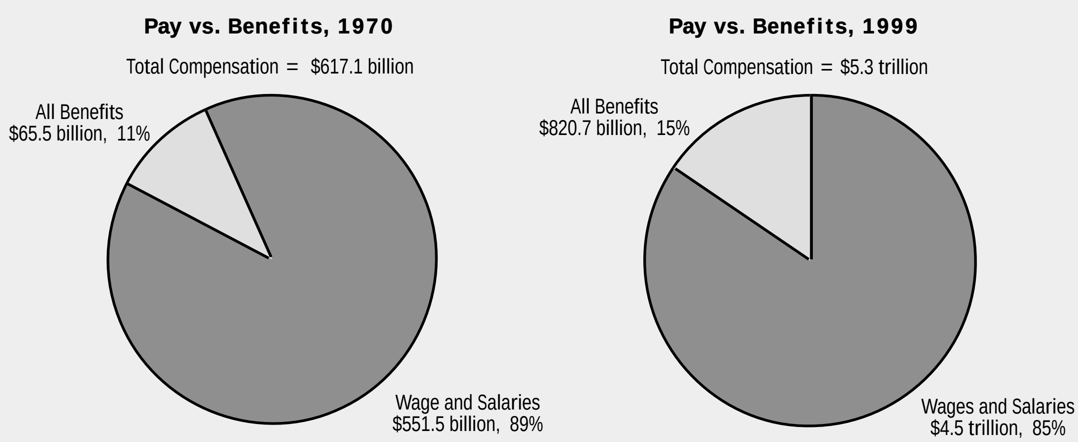
Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/bea/bench.htm and U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Vol. 80, no. 8, August 2000 (Washington, DC: U.S. Government Printing Office, 2000).

Table 2
Employer Outlays for Selected Employee Benefits by Function, Selected Years 1960–1999

	1960	1970	1980	1990	1997	1998	1999
				($ billions)			
Total Compensation	$296.5	$617.1	$1,651.6	$3,350.3	$4,650.3	$4,983.1	$5,298.9
Wages and Salaries[a]	272.8	551.5	1,377.4	2,754.6	3,886.0	4,192.8	4,475.1
All Benefits	23.6	65.5	273.7	594.0	761.7	787.4	820.7
Retirement Income Benefits	14.1	40.1	160.1	291.7	372.5	380.6	392.0
Social Security Old-Age, Survivors, and Disability Insurance	5.6	16.2	55.6	137.3	191.8	205.2	219.5
Private employer pension and profit sharing	4.9	13.1	55.3	62.6	68.0	64.3	60.4
Public employer retirement plans	3.7	10.8	49.2	91.8	112.7	111.1	112.1
federal civilian employee retirement[b]	0.8	2.0	15.9	28.7	38.6	39.1	40.2
state and local government retirement	1.8	5.1	19.1	33.0	44.8	43.0	42.5
military retirement[c]	0.8	3.2	12.5	27.5	26.7	26.3	26.6
railroad retirement	0.3	0.5	1.7	2.6	2.6	2.7	2.8
Health Benefits	3.4	14.6	73.0	223.6	299.8	319.9	343.4
Medicare Hospital Insurance	0.0	2.3	11.6	33.5	54.0	58.0	62.1
Group health insurance	3.4	12.1	61.0	188.6	244.6	260.8	280.2
Military medical insurance[d]	0.0	0.2	0.4	1.5	1.2	1.1	1.1
Other Employee Benefits	6.1	10.8	40.6	78.7	89.4	86.9	85.3
Unemployment insurance[e]	3.0	3.8	17.2	24.5	30.4	29.7	29.3
Workers' compensation	2.0	4.6	19.3	47.0	48.2	45.8	44.2
Group life insurance	1.1	2.4	4.1	7.2	10.8	11.4	11.8

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.doc.gov/bea/bench.htm and U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Vol. 80, no. 8, August 2000 (Washington, DC: U.S. Government Printing Office, 2000).
[a]Includes paid holidays, vacations, and sick leave taken.
[b]Consists of civil service, foreign service, Public Health Service officers, Tennessee Valley Authority, and several small retirement programs.
[c]Includes the U.S. Coast Guard.
[d]Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.
[e]Consists of state, railroad employee, and federal employee unemployment benefits; special unemployment benefits; and supplemental unemployment benefits.

Chart 2
Employer Spending on Benefits



Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/bea/bench.htm and U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Vol. 80, no. 8, August 2000 (Washington, DC: U.S. Government Printing Office, 2000).

Table 3
Personal Contributions for Selected Employee Benefits and Personal Saving, Selected Years 1960–1999

	1960	1970	1980	1990	1997	1998	1999
				($ billions)			
All Benefits and Savings	$30.3	$87.0	$248.9	$449.1	$609.6	$642.5	$550.8
Retirement Income Benefits	7.9	21.6	67.1	158.4	222.9	237.2	254.8
Social Security Old-Age, Survivors, and Disability Insurance	5.6	16.2	55.6	136.4	190.8	203.2	218.0
Private employer pension and profit sharing	a	a	a	a	a	a	a
Public employer retirement plans	2.3	5.4	11.5	22.0	32.1	34.0	36.8
federal civilian employee retirement	0.8	1.9	3.8	6.2	9.3	9.5	10.3
state and local government retirement	1.2	3.1	7.1	14.6	21.5	23.1	25.1
railroad retirement	0.3	0.4	0.6	1.2	1.3	1.4	1.4
Health Benefits	1.8	7.8	27.4	81.8	133.8	139.9	148.4
Medicare Hospital Insurance	b	2.3	11.6	33.4	55.3	59.3	63.5
Medicare Supplemental Medical Insurance	b	1.1	3.0	10.7	19.2	19.3	20.3
Health insurance	1.8	4.4	12.8	37.7	59.3	61.3	64.6
Other Employee Benefits							
Unemployment insurance	0.0	0.0	0.1	0.2	0.1	0.0	0.0
Personal Saving[c]	20.6	57.6	154.3	208.7	252.9	265.4	147.6

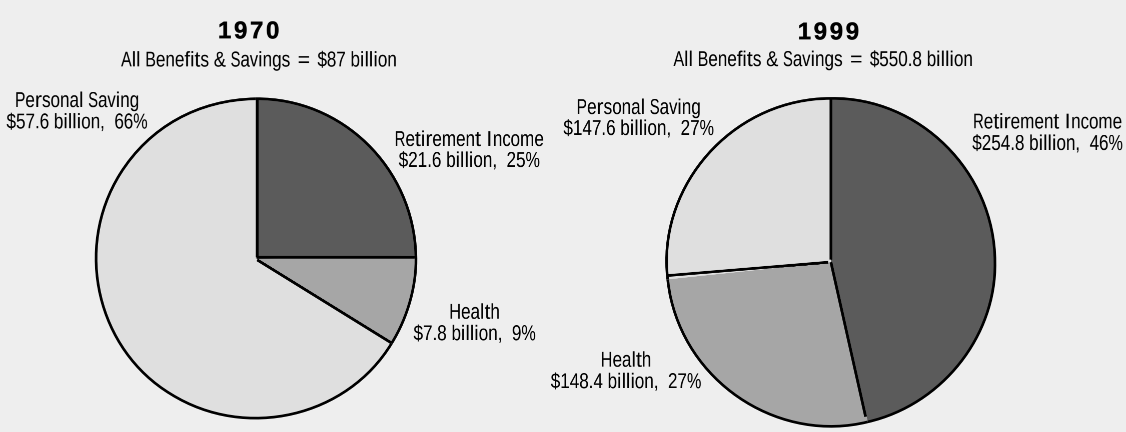
Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/bea/bench.htm and U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Vol. 80, no. 8, August 2000 (Washington, DC: U.S. Government Printing Office, 2000).

[a]Private-sector employee contributions for pension and profit-sharing plans are not reported separately. Such contributions are included in personal saving, as reported in this table.

[b]Program not yet enacted.

[c]Personal saving is a net residual, equal to personal income minus personal contributions to social insurance, personal tax and nontax payments, and personal outlays. It therefore includes savings attributable to income from employer contributions to private and public pension and profit-sharing plans and benefits paid by government employee retirement plans because these flows are defined as components of personal income. Personal saving also includes life insurance savings attributable to premiums paid by individuals and individual contributions to individual retirement accounts and employment-based retirement plans. However, because of the possible failure of some employers to report amounts voluntarily contributed by employees to retirement plans through pretax salary reduction, personal saving (and total compensation) may understate such amounts. However, employee contributions to public pension plans are not included. Employees' voluntary contributions to private retirement plans through pretax salary reduction are included in personal savings to the extent that they are reported by employers as wage and salary disbursements in their reports for unemployment insurance.

Chart 3
Personal Spending for Benefits



Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.doc.gov/bea/bench.htm and U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Vol. 80, no. 8, August 2000 (Washington, DC: U.S. Government Printing Office, 2000).

Public Opinion

EBRI conducts a number of surveys that measure both public and employers' opinions on major benefit-related issues. Full copies and most-recent versions of these surveys are available by visiting EBRI's Web site (www.ebri.org) or by contacting EBRI at (202) 659-0670. These surveys include:

- ***The 2000 Health Confidence Survey (HCS)***
  Americans are becoming more critical about many aspects of the health care system, are growing more confused about managed care, and are more concerned about escalating medical costs, according to the results of a new survey by the nonpartisan Employee Benefit Research Institute (EBRI).
  —Nov. 3, 2000 EBRI press release

- ***The 2000 Retirement Confidence Survey (RCS)***
  The exercise of trying to figure out how much you need to save for retirement can put you ahead in the savings game, according to results of the 2000 Retirement Confidence Survey (RCS) released today. Workers who have attempted such a calculation appear to be doing a better job of preparing for retirement than those who have not.
  —May 16, 2000 EBRI press release

  ➤ *The 2000 Minority RCS*, which oversamples respondents in three minority groups (African-Americans, Hispanic-Americans, and Asian-Americans) as part of the Retirement Confidence Survey, shows many similarities as well as differences about retirement confidence, preparations and planning for retirement among individuals in these minority groups. Overall, the Minority RCS found that Hispanic-Americans tend to be less confident that they will have enough money to live comfortably throughout their retirement years than are other groups.
  —May 16, 2000 EBRI press release

  ➤ *The 1999 Women's Retirement Confidence Survey (WRCS)*
  A majority of American women are saving for their retirement and are confident of their retirement prospects, but more is still needed to ensure they will be able to afford life after work, according to a new survey by the nonpartisan Employee Benefit Research Institute (EBRI).
  —Feb. 2, 1999 EBRI press release

- ***The 2000 Small Employer Health Benefits Survey (SEHBS)***
  Small employers without health insurance coverage identify affordability problems for both themselves and their employees as a key barrier, according to a major new small-business survey released today. But those problems may be compounded by misperceptions about the business value of offering health benefits, tax deductions for both employers and workers, and recent regulatory changes by the state and federal governments that have restructured the small-employer health insurance market.
  —Sept. 5, 2000 EBRI press release

- ***The 2000 Small Employer Retirement Survey (SERS)***
  Are small businesses saying "no" to a retirement plan for their employees before knowing all the facts? According to the results of the 2000 Small Employer Retirement Survey (SERS) released today, nonsponsors may not be aware of all the options available to them, or of the potential business advantages of offering a plan. Currently, less than half (46 percent) of full-time employees at small private establishments (100 or fewer workers) are participating in an employment-based retirement plan.
  —April 4, 2000 EBRI press release

- ***The 2000 Value of Benefits Survey***
  EBRI conducted "value of employee benefits" surveys in 1991 and 1996 to determine the relative importance of different benefits to workers and to assess the role played by benefits in job choice and job change. Collaborating with WorldatWork, the survey was repeated in 1999. As earlier surveys have shown, employee benefits today remain "very important" in job selection, and workers continue to rank their health benefits as the most important of several benefits.
  —June 2000 *EBRI Notes*

- ***1999 Youth and Money Survey***
  Most American students feel confident in their money management skills, but many feel they need to know more about financial issues, according to results of a recent survey published in the August edition of EBRI Notes by the nonpartisan Employee Benefit Research Institute (EBRI). Significantly, the vast majority of students have financial courses offered at school, but barely a third have chosen to take the course. Overwhelmingly, students say they depend on their parents for financial information.
  —Aug. 16, 1999 EBRI press release

Sources for Benefits Information

A partial listing of major organizations that have information resources available to the news media and public.

Employee Benefit Research Institute
2121 K St., NW, Suite 600
Washington, DC 20037
(202) 659-0670
www.ebri.org

American Savings Education Council
2121 K St., NW, Suite 600
Washington, DC 20037
(202) 659-0670
www.asec.org/

Consumer Health Education Council
2121 K St., NW, Suite 600
Washington, DC 20037
(202) 775-6302
www.healthchec.org/

Health

American Association of Health Plans
1129 20th St., NW
Washington, DC 20036
(202) 778-3200
www.aahp.org/

American Board of Quality Assurance and Utilization Review Physicians
2120 Range Rd.
Clearwater, FL 33765-2125
(727) 298-8777
www.abqaurp.org

American Hospital Association
One North Franklin
Chicago, IL 60606
(312) 422-3000
www.aha.org/

American Medical Association
Headquarters:
515 North State St.
Chicago, IL 60610
(312) 464-5000
Washington office:
1101 Vermont Ave., NW
Washington, D.C. 20005
(202) 789-7400
www.ama-assn.org/

American Pharmaceutical Association
2215 Constitution Ave., NW
Washington, DC 20037
(202) 628-4410
www.aphanet.org

Health Insurance Association of America
555 13th St., NW
Washington, DC 20004
(202) 824-1600
www.hiaa.org/

Henry J. Kaiser Family Foundation
2400 Sand Hill Road
Menlo Park, CA 94025
(650) 854-9400
www.kff.org/

National Committee for Quality Assurance
2000 L St., NW, Suite 500
Washington, DC 20036
(202) 955-3500
www.ncqa.org/

Robert Wood Johnson Foundation
Route 1 and College Rd. East
PO Box 2316
Princeton, NJ 08543
(609) 452-8701
www.rwjf.org

Self-Insurance Institute of America, Inc.
12241 Newport Ave., Suite 100
Santa Ana, CA 92705
(714) 508-4920 or (800) 851-7789
www.siia.org

Washington Business Group on Health
50 F St., NW, Suite 600
Washington, DC 20001
(202) 628-9320
www.wbgh.org/

Retirement

American Academy of Actuaries
1100 17th St., NW, Seventh Floor
Washington, DC 20036
(202) 223 8196
www.actuary.org/

American Benefits Council
(formerly Association of Private Pension and Welfare Plans)
1212 New York Ave., NW, Suite 1250
Washington, DC 20005
(202) 289-6700
www.americanbenefitscouncil.org

American Council of Life Insurers
1001 Pennsylvania Ave., NW
Washington, DC 20004
(202) 624-2000
www.acli.com

American Society of Pension Actuaries
4245 North Fairfax Dr., Suite 750
Arlington, VA 22203
(703) 516-9300
www.aspa.org/

ERISA Industry Committee
1400 L St., NW, Suite 350
Washington DC 20005
(202) 789-1400
www.eric.org/

Government Finance Officers Association
180 N. Michigan Ave., Suite 800
Chicago, IL 60601
(312) 977-9700
www.gfoa.org

Investment Company Institute
1401 H St., NW
Washington, DC 20005
(202) 326-5800
www.ici.org/

Profit Sharing/ 401(k) Council of America
10 South Riverside Plaza
Chicago, IL 60606-3802
(312) 441-8550
www.psca.org/

Labor

AFL-CIO (American Federation of Labor and Congress of Industrial Organizations)
815 16th St., NW
Washington, DC 20006
(202) 637-5000
www.aflcio.org/

American Federation of State, County and Municipal Employees
1625 L St., NW
Washington, DC 20036-5687
(202) 429-1000
www.afscme.org/

Business

Business Roundtable
1615 L St., NW, Suite 1100
Washington, DC 20036
(202) 872-1260
www.brtable.org

Conference Board
845 Third Avenue
New York, NY 10022-6679
(212) 759 0900
www.conference-board.org/

National Association of Manufacturers
1331 Pennsylvania Ave., NW
Washington, DC 20004
(202) 637-3000
www.nam.org

National Federation of Independent Business
1201 F St., NW, Suite 200
Washington, DC 20004
(202) 554-9000
www.nfib.com

U.S. Chamber of Commerce
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Washington, DC 20062
(202) 659-6000
www.uschamber.com

Associations/Foundations/Research

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www.aarp.org/

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Washington, DC 20036
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www.aei.org

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1775 Massachusetts Ave., NW
Washington, DC 20036
(202) 797-6000
www.brook.edu/

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Washington, DC 20001-5403
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1800 K St., NW
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(202)887-0200
www.csis.org/

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(202) 546-4400
www.heritage.org/

International Foundation of Employee Benefit Plans
18700 W. Bluemound Rd.
Brookfield, WI 53008-0069
(262) 786-6700
www.ifebp.org/

National Governors Association
444 N. Capitol St., Suite 267
Washington, DC 20001
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www.nga.org

Pension Rights Center
1140 19th St., NW, Suite 602
Washington, DC 20036-6608
(202) 296-3776
pensionrights.org/

RAND
1700 Main St.
P.O. Box 2138
Santa Monica, CA 90407
(310) 393-0411
www.rand.org/

Society for Human Resource Management
1800 Duke St.
Alexandria, VA 22314
(703) 548-3440
www.shrm.org/

Society of Professional Benefit Administrators
Two Wisconsin Cir., Suite 670
Chevy Chase, MD 20815
(301) 718-7722
users.erols.com/spba

Urban Institute
2100 M St., NW
Washington, DC 20037
(202) 833-7200
www.urban.org/

WorldatWork
(formerly the American Compensation Association)
14040 N. Northsight Blvd.
Scottsdale, AZ 85260
(480) 951-9191
www.worldatwork.org/

Benefit Consulting Firms

Aon Consulting
Two World Trade Center, 101st Floor
New York, NY 10048
(212) 441-2000

Buck Consultants
One Pennsylvania Plaza
New York, NY 10119-4798
(212) 330-1000
www.buckconsultants.com/

Cerulli Associates
575 Boylston St.
Boston, MA 02116
(617) 437-0084
www.cerulli.com

Ernst & Young
787 Seventh Avenue
New York, NY 10019
(212) 773-3000
www.ey.com/

Hewitt Associates
100 Half Day Rd.
Lincolnshire, IL 60069-3342
(847) 295-5000
was.hewitt.com/hewitt/

PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, NY 10019
(212) 707 6000
Unifi Network:
(201) 530-2021
www.pwcglobal.com/

Spectrem Group
One Penn Plaza, 46th Floor
New York, NY 10119
(212) 547-5030
www.spectrem.com/

The Segal Company
One Park Ave.
New York, NY 10016
(212) 251-5000
www.segalco.com/

Towers Perrin
335 Madison Ave.
New York, NY 10017-4605
(212) 309-3400
www.towers.com/

Watson Wyatt Worldwide
1717 H St., NW
Washington, DC 20006
(202) 715-7000
www.watsonwyatt.com/

William M. Mercer Companies
2 World Trade Center
New York, NY 10048
(212) 345-7000
www.mercer.com/

Government

U.S. Agency for Healthcare Research and Quality
2101 E. Jefferson St., Suite 501
Rockville, MD 20852
(301) 594-1364
www.ahrq.gov/

U.S. Bureau of Labor Statistics
2 Massachusetts Ave., NE
Washington, DC 20212
(202) 691-6199
www.bls.gov/

U.S. Bureau of the Census
Federal Office Building 3
Silver Hill and Suitland Rds.
Suitland, MD 20746
(301) 457-4100
www.census.gov

U.S. Department of Health and Human Services
200 Independence Ave., SW
Washington, DC 20201
(202) 619-0257
www.hhs.gov/

U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220
(202) 622-2000
www.ustreas.gov/

U.S. Health Care Financing Administration
7500 Security Blvd.
Baltimore, MD 21244
(410) 786-3000
www.hcfa.gov

U.S. Internal Revenue Service
1111 Constitution Ave., NW
Washington, DC 20224
IRS information: (800) 829-1040
SOI Statistical Information Services: (202) 874-0410
www.irs.ustreas.gov/

U.S. National Center for Health Statistics
6252 Belcrest Rd.
Hyattsville, MD 20782-2003
(301) 458-4636
www.cdc.gov/nchs/

U.S. Pension and Welfare Benefits Administration
Division of Technical Assistance and Inquiries
Room N-5619
200 Constitution Ave., NW
Washington, DC 200210
(202) 219-8776
www.dol.gov/dol/pwba/

U.S. Pension Benefit Guaranty Corporation
1200 K St., NW
Washington, DC 20005-4026
(202) 326-4000
www.pbgc.gov/

U.S. Social Security Administration
6401 Security Blvd.
Baltimore, MD 21235
(800) 772-1213
www.ssa.gov/

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