EBRI issue brief

EMPLOYEE BENEFIT RESEARCH INSTITUTE

FEBRUARY 1991 NUMBER 111

◆ ◆ ◆

Employee benefit programs have evolved to serve many purposes: some seek to promote economic security by insuring against uncertain events, while others are intended to raise living standards by providing targeted services.

◆ ◆ ◆

Employee Benefits in Total Compensation

- Employee benefits accounted for 16 percent of total U.S. employee compensation in 1989, up from 8 percent in 1960. Between 1970 and 1989, inflation-adjusted benefit spending per full-time employee grew by 63 percent—from $2,970 to $4,842—while average cash pay remained almost flat at near $25,000.

- More than 80 percent of Americans believe that employee benefits are "important" or "very important" considerations when choosing a job. Most would choose a job without benefits over one with benefits only if offered $5,000 or more in additional annual pay.

- Fifty-four percent of all nonfarm private-sector employees and 90 percent of all public-sector employees worked for employers that offered both health insurance and retirement benefits in 1988. More than 79 percent of these "covered" employees had moderate annual earnings of between $10,000 and $35,000.

- Workers most likely to have benefits include those working in the public sector or for large private firms and those with higher earnings or longer job tenure.

- Seventy-six percent of all nonfarm employees whose employers offered retirement benefits in 1988 participated in the plan that year. Eighty-one percent of those whose employers offered health insurance participated in the plan.

- Among the 58 million nonfarm employees eligible for sick leave in 1988, 59 percent could receive full pay while sick, and 26 percent could receive full or partial pay for more than 130 days.

◆ Introduction

Employee benefits play a major role in the compensation of U.S. employees and represent a large proportion of employers' total compensation costs. Some employment-based benefits, such as pensions and health insurance, are provided voluntarily by employers. Others, including Social Security and Medicare, are mandatory. Over the years, employee benefit programs have evolved to serve many purposes. Some are used to promote economic security by insuring against uncertain events; others are intended to raise living standards by providing targeted services.

A family's income security can be threatened if a wage earner dies or becomes disabled. Group life insurance and long-term disability insurance, often provided voluntarily by employers, can help to alleviate such unexpected financial losses. In addition, most of today's workers look forward to a period of voluntary retirement in old age. Employer-sponsored pensions and savings plans help to provide for an economically secure retirement. Mandatory government programs also address the need for income security. The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) program provides an income base, in the form of a lifetime annuity, to nearly all retired and disabled workers and their surviving spouses.

◆ ◆ ◆

Total employee compensation has more than doubled since 1960, adjusting for inflation.

◆ ◆ ◆

The U.S. employee benefit system also seeks to provide American workers and their families with lifelong access to certain vital services—especially medical care. Most American workers participate in group health insurance programs sponsored voluntarily by their employers. The mandatory Medicare program provides medical insurance to nearly all elderly and long-term disabled Americans.

A large proportion of all mandatory and voluntary employee benefit spending comes from employer contributions. For instance, employers pay one-half of the total contribution to Social Security and Medicare. Voluntary benefits, such as pensions and health insurance, are often financed entirely or primarily by employer contributions. Employer payments for employee benefits, combined with wages, salaries, and other cash payments to employees, make up total compensation.

This *Issue Brief* begins with a discussion of employer spending for employee benefits. It goes on to consider the value of employee benefits as perceived by workers. In addition, the *Issue Brief* details new findings on the proportion of nonfarm wage and salary workers covered under major employee benefit programs and describes trends in these coverage rates.

◆ Benefit Spending in Total Compensation

In 1989, U.S. employers spent $3.1 trillion on employee compensation, including $2.6 trillion on wages and salaries (including holiday and leave pay) and $501 billion for mandatory and voluntary tax-preferred employee benefits. Nearly one-half of all benefit spending ($247 billion) went to retirement benefits, while $178 billion was spent on health benefits.

Trends in Total Compensation Costs

Total employee compensation has more than doubled since 1960, adjusting for inflation.[1] At the same time, inflation-adjusted benefit spending has grown fivefold. Recent growth in benefit spending (since 1980) is primarily attributable to a large increase in mandatory

[1]All inflation adjustments calculated for this report are based on the consumer price index for all urban consumers, or CPI-U.

contributions to Social Security and Medicare and a sharp rise in spending for group health insurance. In contrast, employer contributions to private pension and profit-sharing plans have declined in real terms since 1980. The latter trend probably reflects a number of factors, including favorable pension investment returns,[2] tighter maximum funding restrictions,[3] and an increased reliance on plans that require employee contributions.[4]

Trends in Compensation Costs per Employee

Since 1970, inflation-adjusted growth in employer spending for employee compensation has been produced almost entirely by growth in employment, rather than by increases in average compensation. While aggregate compensation spending rose by more than 50 percent—from $2.0 trillion in 1970 to $3.1 trillion in 1989—total compensation per full-time equivalent employee (FTE)[5] increased 7 percent, from $27,764 to $29,772. During that time, wages and salaries remained roughly flat at about $25,000 per FTE. The modest growth in total compensation per FTE occurred entirely in benefit spending, which increased by 63 percent, from $2,970 in 1970 to $4,842 in 1989. Like growth in overall benefit spending, the rise in benefit spending per FTE was concentrated in mandatory Social Security and Medicare contributions and spending for group health insurance. Contributions to private pension and profit sharing per FTE have declined since 1980 (table 1).

[2]From 1985 to 1989, the aggregate returns to private trusteed pension funds averaged 16.7 percent per year (Davis, 1990).
[3]The Omnibus Budget Reconciliation Act of 1987 imposed a reduction in the maximum funding limits applicable to private defined benefit pension plans.
[4]Participation in one type of contributory plan, known as a cash or deferred arrangement or 401(k) plan, increased sharply from 3 million nonfarm wage and salary workers in 1983 to 16 million in 1988 (Piacentini and Cerino, 1990).
[5]Full-time equivalent employees equals the number of employees on full-time schedules plus the number of employees on part-time schedules converted to a full-time basis. The conversion is made by multiplying the number of employees on part-time schedules by the ratio of average weekly hours per employee on part-time schedules times average weekly hours per employee on full-time schedules in each industry. Benefit spending per FTE cannot be interpreted as the average cost of providing a particular benefit to an employee, because not all employees receive each benefit. For example, government employees generally cannot receive contributions to private pension and profit sharing; moreover, some private employees do not receive such contributions.

◆ ◆ ◆

Since 1980, retirement benefits have fallen as a proportion of total compensation, while health benefits have risen.

◆ ◆ ◆

Trends in the Composition of Compensation

During the 1960s and 1970s, employer spending for employee benefits grew steadily as a proportion of compensation, from 8.0 percent in 1960 to 16.1 percent in 1980, then leveled off. **In 1989, total benefit spending of $501 billion represented 16.3 percent of the $3.1 trillion total compensation bill.** Since 1980, retirement benefits have fallen as a proportion of total compensation, while health benefits have risen. As the share of compensation attributable to retirement benefits decreased, a sharp fall in the proportion attributable to private pension and profit sharing offset a smaller rise in the proportion attributable to Social Security. The rise in health care spending as a percentage of total compensation included increases in the proportions devoted to group health insurance and Medicare spending (table 2).

Compensation across Industries

The amount and composition of employee compensation vary widely across industries.

The amount of compensation spending in each industry may be viewed either in the aggregate or on average. Aggregate spending for compensation is primarily a

Table 1
Public and Private Employer Spending for Employee Compensation, by Component, on Aggregate and per Full-Time Equivalent Employee (FTE),[a] Selected Years, 1960–1989

Spending	Aggregate Spending in Billions of Constant 1989 Dollars[b]				Spending per FTE[a] in Constant 1989 Dollars[b]			
	1960	1970	1980	1989	1960	1970	1980	1989
Total Compensation	$1,243	$1,976	$2,465	$3,079	$21,988	$27,764	$28,319	$29,772
Wages and salaries[c]	1,143	1,762	2,065	2,573	20,215	24,768	23,718	24,884
All benefits	99	211	398	501	1,754	2,970	4,569	4,842
Other labor income[d]	1	2	3	5	19	26	32	46
Retirement Income Benefits	59	129	227	247	1,050	1,808	2,602	2,390
Social Security OASDI	23	52	84	127	415	728	961	1,230
Private pension and profit sharing	20	42	82	48	361	586	938	462
Public employer retirement plans	16	35	61	72	274	494	704	698
federal civilian	3	7	11	15	59	99	128	146
state and local government	8	16	29	34	133	229	330	327
military[e]	3	10	19	21	59	144	216	200
railroad	1	2	3	3	22	22	29	25
Health Benefits	14	47	108	178	250	656	1,237	1,722
Social Security HI	0	7	17	32	0	103	201	308
Group health insurance	14	39	90	145	250	543	1,030	1,402
Military medical insurance[f]	0	1	1	1	0	9	7	13
Other Employee Benefits	26	36	63	75	454	507	729	729
Unemployment insurance	13	12	25	23	224	171	283	224
Workers' compensation	8	15	29	41	150	206	332	401
Group life insurance	5	9	10	11	80	130	114	104

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, *Survey of Current Business*, selected years.

[a]Full-time equivalent employees (FTEs) equals the number of employees on full-time schedules plus the number of employees on part-time schedules converted to a full-time basis. The conversion is made by multiplying the number of employees on part-time schedules by the ratio of average weekly hours per employee on part-time schedules times average weekly hours per employee on full-time schedules in each industry. Benefit spending per FTE cannot be interpreted as the average cost of providing a particular benefit to an employee, because not all employees receive each benefit. For example, government employees generally cannot receive contributions to private pension and profit sharing; moreover, some private employees do not receive such contributions.

[b]All inflation adjustments made for this report are based on the consumer price index for all urban consumers, or CPI-U.

[c]Includes holiday and vacation pay and other pay for time not worked.

[d]Consists primarily of directors' fees.

[e]Includes the Coast Guard.

[f]Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.

function of the number of employees working in each industry. Therefore, large industries such as manufacturing, services, and government and government enterprises accounted for the bulk of total compensation spending. In contrast, mining; communications; and electric, gas, and sanitary services ranked highest in average compensation, each at more than $40,000 per FTE, while retail trade and agriculture, forestry, and fisheries ranked lowest, at less than $20,000 per FTE.

Variations in benefit coverage levels, employee demographics, and other factors across industries result in variations in the composition of total compensation. **In 1989, benefits played the largest role in the communications and government and government enterprise industries, at more than 21 percent of total compensation. In contrast, benefits played the smallest role in the agriculture, forestry, and fisheries; wholesale trade; retail trade; and services industries** (table 3).

Table 2
Public and Private Employer Spending for Employee Compensation, by Component, as a Percentage of Total Compensation,[a] Selected Years, 1960–1989

Spending	1960	1970	1980	1989
Total Compensation	100.0%	100.0%	100.0%	100.0%
Wages and salaries[b]	91.9	89.2	83.8	83.6
All benefits	8.0	10.7	16.1	16.3
Other labor income[c]	0.1	0.1	0.1	0.2
Retirement Income Benefits	4.8	6.5	9.2	8.0
Social Security OASDI	1.9	2.6	3.4	4.1
Private pension and profit sharing	1.6	2.1	3.3	1.6
Public employer retirement plans	1.2	1.8	2.5	2.3
federal civilian	0.3	0.4	0.5	0.5
state and local government	0.6	0.8	1.2	1.1
military[d]	0.3	0.5	0.8	0.7
railroad	0.1	0.1	0.1	0.1
Health Benefits	1.1	2.4	4.4	5.8
Social Security HI	0.0	0.4	0.7	1.0
Group health insurance	1.1	2.0	3.6	4.7
Military medical insurance[e]	0.0	f	f	f
Other Employee Benefits	2.1	1.8	2.6	2.4
Unemployment insurance	1.0	0.6	1.0	0.8
Workers' compensation	0.7	0.7	1.2	1.3
Group life insurance	0.4	0.5	0.4	0.4

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, *Survey of Current Business*, selected years.
[a]Pertains to aggregate employer spending. Benefit spending as a percentage of total compensation cannot be interpreted to represent the breakdown of compensation provided to the typical employee, because not all employees receive each benefit. For example, government employees generally cannot receive contributions to private pension and profit sharing; moreover, some private employees do not receive such contributions.
[b]Includes holiday and vacation pay and other pay for time not worked.
[c]Consists primarily of directors' fees.
[d]Includes the Coast Guard.
[e]Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.
[f]Less than 0.05 percent.

◆ The Value of Benefits

Just as employers dedicate a large proportion of total compensation spending to the provision of employee benefits, employees place a high value on employee benefits as part of their compensation packages. For a variety of reasons, however, the cost of providing benefits to a particular employee may not correspond to the value that the employee places on the benefits.

Employer Spending versus Benefit Value

The relationship between employer spending for employee benefits and the value of these benefits to employees is not as straightforward as it might appear. One complication arises because different companies employ demographically different employee groups and face differing levels of administrative cost. In addition, spending for defined benefit pension plans in a given year is only loosely tied to the value of benefits accrued for that year because of variations in prior funding levels, investment returns, and funding schedules. Therefore, **the level of employer spending for benefits may not accurately reflect the varying levels of benefit protection provided to different employees in different industries.**

An index of the value of benefits provided by *Fortune* 500 companies, developed by Hewitt Associates, adjusts for these factors by estimating the dollar value of benefits paid or accrued to a hypothetical "typical" employee group under the companies' benefit plans. In 1988, the average benefit value, so defined, ranged from 21.8 percent of pay in the utilities industry to 14.5 percent of pay in the retailing industry.

Several additional factors may contribute to the divergence between employer spending for benefits and the value that employees place on these benefits.[6] **Many benefits are provided on a tax-free or tax-deferred basis to employees and therefore might be worth more to them than their cost to employers would imply.** In

[6]This discussion draws heavily from Famulari and Manser, 1989.

Table 3
Public and Private Employer Spending for Total Compensation and Its Components, by Major Industry, 1989

Industry	Total Compensation (billions)	Total Compensation per FTE[a]	Components of Compensation as a Percentage of Total Compensation[b]: Wages and salaries[c]	Contributions to social insurance[d]	Other labor income[e]	All benefits[f]
All Domestic	$2,908	$28,790	83.5%	8.6%	7.9%	16.5%
Private	2,341	28,119	84.7	6.7	8.6	15.3
agriculture, forestry, fisheries	23	13,957	86.8	8.1	5.2	13.2
mining	30	42,281	82.6	6.7	10.7	17.4
construction	155	31,390	82.4	7.6	10.0	17.6
manufacturing	649	34,235	82.1	6.6	11.3	17.9
durable	403	35,751	81.6	6.7	11.7	18.4
nondurable	237	30,846	82.3	6.7	11.0	17.7
transportation and public utilities	200	37,957	80.2	7.3	12.5	19.8
transportaton	106	33,323	81.0	8.6	10.4	19.0
communications	53	45,123	78.7	5.6	15.7	21.3
electric, gas, and sanitary services	41	44,886	80.3	5.8	13.8	19.7
wholesale trade	196	33,721	86.8	6.7	6.5	13.2
retail trade	278	17,474	86.6	7.2	6.1	13.4
finance, insurance, and real estate	223	34,456	85.6	6.1	8.3	14.4
services	595	25,317	87.9	6.2	5.9	12.1
Government and government enterprises	567	31,935	78.8	16.3	4.9	21.2

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, *Survey of Current Business*, selected years.

[a]Full-time equivalent employees (FTEs) equals the number of employees on full-time schedules plus the number of employees on part-time schedules converted to a full-time basis. The conversion is made by multiplying the number of employees on part-time schedules by the ratio of average weekly hours per employee on part-time schedules times average weekly hours per employee on full-time schedules in each industry. Benefit spending per FTE cannot be interpreted as the average cost of providing a particular benefit to an employee, because not all employees receive each benefit. For example, government employees generally cannot receive contributions to private pension and profit sharing; moreover, some private employees do not receive such contributions.

[b]Pertains to aggregate employer spending. Benefit spending as a percentage of total compensation cannot be interpreted to represent the breakdown of compensation provided to the typical employee, because not all employees receive each benefit.

[c]Includes holiday and vacation pay and other pay for time not worked.

[d]Includes employer contributions to Social Security OASDI, public employer retirement plans, Social Security HI, military medical insurance, federal unemployment insurance, and state and federal workers' compensation funds.

[e]Includes employer contributions to private pension and profit sharing, group health insurance, group life insurance, private workers' compensation funds, supplemental unemployment insurance, and directors' fees.

[f]Includes contributions to social insurance and other labor income.

other words, the cost of benefits is less than the amount of taxable pay that would have to be provided to enable employees to purchase the same benefits with their after-tax income.[7] Moreover, employers may be able to provide some benefits at a cost below the benefits' perceived value by taking advantage of large risk pools and economies of scale in administration.

Other factors may cause the value that employees place on benefits to fall short of employer cost. Benefits are often provided on a uniform basis to a large employee group, although different employees prefer different balances of pay and benefits and some would certainly prefer to have a portion of benefit spending redirected

[7]Federal revenue losses attributable to tax preferences granted to employee benefits will amount to an estimated $126 billion in 1991, including $33 billion for employer-paid health premiums and $47 billion for employer-sponsored pensions (Executive Office of the President, 1990). These figures include both public- and private-sector employer-sponsored benefits.

toward cash pay. The value that such employees place on these "surplus" benefits is therefore less than the employers' cost of providing them. Finally, employees may lack accurate information on the benefit protections provided to them or the prices they would have to pay to purchase that protection individually.

Several alternative measures of the value of benefits have been proposed. A "market value" approach would define the value of benefits as the cost to the employees of purchasing the same amount of benefit protection on an individual basis. A "funds released" approach would instead ask how much of each benefit employees would choose to buy and define the value of benefits as the cost of this level of protection. The widely used "cash equivalent" approach asks how much cash employees would exchange for their existing benefit protection.

Public Attitudes on the Importance of Benefits

In May 1990, The Gallup Organization surveyed 1,000 adults on behalf of the Employee Benefit Research Institute (EBRI) to investigate public perceptions of the value of employee benefits. **The survey revealed that a large majority of individuals believe that benefits are important and assign a large dollar value to them.** These findings are consistent across nearly all economic and demographic groups.

Eighty-four percent of all respondents indicated that benefits such as pensions, health insurance, vacation, sick leave, and child care would be "important" or "very important" considerations if they were choosing a job. If offered two otherwise identical jobs, one with pension, health benefits, and life insurance and another with no benefits, 58 percent of all respondents would require an extra $5,000 or more in annual pay to accept the job without benefits. Fifty-nine percent of all respondents would not accept a job that lacked health benefits, while about 41 percent would not accept a job that lacked a pension. Fifteen percent of respondents had accepted, quit, or changed jobs because of the benefits offered or not offered by an employer (table 4).

Most adults believe that health insurance is the most important employer-provided benefit, the EBRI/Gallup survey indicates. Asked to choose the most important from a list of nine benefits, 61 percent of all respondents cited health insurance. Pensions were a distant second, rated most important by 17 percent of all respondents. Health insurance was rated most important by a majority of each major economic and demographic group, with the exception of respondents aged 55 and older. Within this group, 48 percent cited health insurance, while 30 percent chose pensions.

Asked to identify the least important benefit, nearly one-half of all respondents chose child care, while

Table 4
Percentage of U.S. Adults Assigning Indicated Importance to Employee Benefits

Importance Assigned to Benefits	Percentage
Benefits are "important" or "very Important" to choice of job[a]	84%
$5,000 or more in extra pay required to choose job without benefits over job with pension, health, and life insurance[a]	58
Would not accept job without health insurance[a]	59
Employers should be required to provide health insurance at no cost to employees[b]	56
Would not accept job without pension[a]	41
Employers should be required to provide pension[c]	70
Have accepted, quit, or changed jobs because of benefits offered or not offered[a]	15

Sources: Employee Benefit Research Institute/The Gallup Organization, Inc., *Public Attitudes on the Value of Benefits: Full Report*, EBRI Report no. G-12, and *Public Attitudes on Health Insurance, 1990: Full Report*, EBRI Report no. G-13 (Washington, DC: Employee Benefit Research Institute, 1990c and 1990a); and *Public Attitudes on Retirement Income and Savings: Full Report* (Washington, DC: Employee Benefit Research Institute, 1991).
[a]Based on interviews of 1,000 U.S. adults conducted by The Gallup Organization, Inc., on behalf of EBRI, in May 1990.
[b]Based on interviews of 1,050 U.S. adults conducted by The Gallup Organization, Inc., on behalf of EBRI, in June 1990.
[c]Based on interviews of 1,000 U.S. adults conducted by The Gallup Organization, Inc., on behalf of EBRI, in September 1990.

another 16 percent chose parental leave (table 5). Perhaps surprisingly, this finding varied little with the sex and marital status of the respondent; however, younger respondents (aged 18–34) were less likely to identify child care as least important.

The importance placed on health benefits and pensions was also reflected in later EBRI/Gallup surveys. **More than one-half of 1,000 U.S. adults surveyed in June 1990 believed that employers should be required to provide health benefits at no cost to their employees, and 84 percent believed that employers should be required to provide coverage if employees paid a portion of the cost. Seventy-eight percent preferred $2,500 worth of health benefits to $2,500 per year in additional pay.** Among 1,050 adults surveyed in September 1990, 70 percent believed that companies should be legally required to provide retirement benefits as part of every employee's compensation (table 4). Sixty-six percent of these respondents supported such a mandate even if it would result in lower pay.

Table 5
Percentage of U.S. Adults Identifying Indicated Benefits as "Most Important" or "Least Important"[a]

Benefit	Most Important	Least Important
Health Benefits	61%	b
Pensions	17	3%
Disability Insurance	5	2
Long-Term Care Insurance	4	4
Life Insurance	4	8
Child Care	3	47
Savings Plan	2	10
Annual Leave	2	7
Parental Leave	1	16
Don't Know	2	4

Source: Employee Benefit Research Institute/The Gallup Organization, Inc., *Public Attitudes on the Value of Benefits: Full Report*, EBRI Report no. G-12 (Washington, DC: Employee Benefit Research Institute, 1990c).
[a]Based on interviews of 1,000 U.S. adults conducted by The Gallup Organization, Inc., on behalf of EBRI, May 1990.
[b]Less than 0.5 percent.

Although health insurance is cited more often than pensions as the most important benefit, pension participants place a higher dollar value on these benefits than individuals with employer-provided health insurance place on their coverage, according to the May 1990 EBRI/Gallup survey. Thirty-six percent of respondents with health insurance coverage from their own or a family member's employer would require annual payments of $3,000 or more to give up their coverage. In contrast, 46 percent of pension participants would require payments of similar size to give up their pensions. Among those reporting an amount, the average required in trade for health benefits was $4,219, while the average required in trade for pensions was $5,361.

◆ ◆ ◆

Most individuals do not know how much their employer spends on their health benefits, according to the May 1990 EBRI/Gallup survey.

◆ ◆ ◆

Most individuals do not know how much their employer spends on their health benefits, according to the May 1990 EBRI/Gallup survey. **Among the 676 respondents with employer-provided health benefits, 71 percent did not know the monthly premium amount paid by the employer.** Uncertainty about employer spending is also reflected in individual responses regarding the amount of cash individuals would accept in exchange for their benefits. Thirty-five percent of those with health benefits were uncertain how much they would require; 31 percent of pension participants were similarly undecided.

◆ Employer Provision of Benefits

The May 1988 Current Population Survey employee benefit supplement (CPS EBS) provides data on employer-sponsored retirement benefits,[8] health insurance,[9] sick leave,[10] and disability benefits.[11] The CPS is a monthly survey conducted by the U.S. Bureau of the Census by interviewing approximately 58,000 households. The survey gathers data on the civilian noninstitutionalized population of the United States. The May supplement specifically addresses employer-sponsored benefits among civilian workers.

◆ ◆ ◆

Employee benefits tend to be more numerous and widespread in the public sector than in the private sector.

◆ ◆ ◆

Benefits Offered in the Private and Public Sectors

Employee benefits tend to be more numerous and widespread in the public sector than in the private sector. **In May 1988, 93 percent of public-sector workers reported working for employers that offer retirement benefits, and the same proportion reported employer-sponsored health insurance benefits.** More than 80 percent reported the avail-ability of sick leave. And almost one-half of public-sector workers indicated the availability of disability insurance (table 6).

Moreover, 97 percent of nonfarm wage and salary workers in the public sector worked for employers that offered at least one benefit. Ninety percent of workers indicated that retirement benefits and health insurance are offered in combination by their employers. Finally, 47 percent of public-sector workers reported that their employers offer all four benefits (table 7).

[8]These workers indicated that their employer offers a plan; they may or may not be participating in the plan.
[9]These workers indicated that their employer offers a plan; they may or may not be participating in the plan.
[10]Workers reported that they would receive pay if they became sick.
[11]Workers reported that they would receive disability benefits if they became disabled.

In comparison, nearly 60 percent of private-sector workers reported that their employers offer retirement benefits. Seventy-five percent reported employer-sponsored health insurance. Slightly more than one-half were offered sick leave, and less than 40 percent had disability insurance (table 6).

More than 80 percent of private-sector workers have employers that offer at least one benefit; more than one-half responded that their employers offer a combination of retirement benefits and a health insurance plan. One in four private-sector workers reported that their employers offer all four benefits (table 7). Sick leave and disability insurance appear to be linked to other benefits in that employers rarely provide them in the absence of other benefits.

Factors Associated with Employer-Sponsored Benefits in the Public Sector

The provision of benefits in the public sector is linked to a number of worker characteristics: firm size, union status, annual earnings, age, job tenure, sex, and work schedule.

◆ ◆ ◆

Nearly all public-sector workers employed by the largest firms reported that their employers sponsor at least one benefit, compared with 85 percent of workers in the smallest firms.

◆ ◆ ◆

Firm Size—The percentage of persons indicating that their employer sponsors any of the four benefits increases with firm size. For example, nearly all (96 percent) public-sector workers in firms with 250 or more employees reported that their employers sponsor retirement benefits and health insurance plans (table 6).

Table 6

Percentage of Private- and Public-Sector Nonfarm Wage and Salary Workers Whose Employers Offer Selected Benefits, by Selected Employer and Employee Characteristics, May 1988

	Workers (in millions)		Any Retirement Benefits[a]		Any Health Insurance[b]		Any Sick Leave[c]		Any Disability Insurance[d]	
Characteristic	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public
Total	84.7	17.1	57%	93%	75%	93%	52%	83%	36%	49%
Firm Size										
Less than 25	21.1	0.6	18	67	46	76	28	66	17	33
25–99	11.1	1.3	47	83	78	87	48	74	30	38
100–249	6.3	1.2	62	93	88	93	58	87	38	49
250 or more	38.4	13.0	83	96	90	96	68	86	50	53
Don’t know	7.8	1.1	47	80	66	83	38	68	23	33
Union Status										
Union	10.8	6.3	87	98	91	98	67	94	53	60
Nonunion	67.5	10.1	55	91	75	92	51	78	34	44
Don’t know	6.4	0.7	31	81	57	82	33	51	24	26
Earnings										
<$10K	20.0	2.7	31	77	50	81	17	43	10	16
$10K–<$19,999K	25.9	5.3	59	95	82	95	57	89	35	47
$20K–<$34,999K	21.3	5.8	77	98	90	98	73	95	52	62
$35K+	10.0	2.5	84	99	94	98	80	95	65	71
Don’t know	7.5	0.8	29	77	53	79	30	49	22	25
Age										
Under 25	17.1	1.3	39	80	59	85	30	51	21	25
25–34	26.5	4.3	61	94	81	95	57	84	41	50
35–54	31.9	9.0	64	95	81	94	60	87	42	53
55–64	7.4	2.1	60	91	75	93	55	87	35	53
65 or older	1.9	0.4	38	83	56	87	31	56	13	29
Tenure										
Less than 1 year	17.7	1.7	39	81	60	86	30	52	20	27
1–4 years	29.3	4.6	52	90	75	92	50	76	32	38
5–9 years	13.7	3.5	68	96	83	95	64	89	45	54
10–14 years	8.4	2.6	75	98	89	96	69	93	50	58
15 years or more	11.6	4.3	80	97	90	98	74	94	56	65
Don’t know	4.0	0.4	33	66	49	69	27	44	16	18
Sex										
Male	46.7	8.1	60	94	78	94	53	86	42	56
Female	38.0	9.0	54	91	72	93	51	80	28	43
Work Schedule										
Full time	71.2	15.0	62	95	81	95	59	90	41	55
Part time	13.5	2.1	32	74	46	80	15	32	8	13

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]Employers offer retirement benefits.
[b]Employers offer health insurance.
[c]Workers are eligible for sickness benefits.
[d]Workers are eligible for disability benefits.

Nearly all workers employed by the largest firms reported that their employers sponsor at least one benefit, compared with 85 percent of workers in the smallest firms. One-half of all public-sector workers in the largest firms have employers that offer all four benefits (table 7).

Union Status—Union status[12] is a second factor related to employer-sponsored benefits. **Generally, unionized workers are offered a greater number of benefits.**

◆ ◆ ◆

Nearly all public-sector unionized workers (98 percent) and more than 90 percent of nonunionized workers reported that their employers offer retirement benefits.

◆ ◆ ◆

Among public-sector workers, there is little difference in the percentage of unionized and nonunionized workers who indicated that their employers offer retirement benefits, a health insurance plan, or at least one benefit. In contrast, union status appears to be more closely linked to the availability of sick leave and disability insurance, a combination of employer-sponsored retirement and health benefits, and the provision of all four benefits (tables 6 and 7).

Nearly all public-sector unionized workers (98 percent) and more than 90 percent of nonunionized workers reported that their employers offer retirement benefits. **A similar percentage of unionized and nonunionized workers indicated that their employers offer a health insurance plan.** Ninety-four percent of unionized workers indicated the availability of sick leave, compared with 78 percent of nonunionized workers. In addition, 60 percent of unionized workers indicated that their employers offer disability insurance, compared with 44 percent of nonunionized workers (table 6).

[12]Unionized workers are those who are union members or are covered under a collectively bargained contract.

More than 95 percent of unionized workers responded that their employers offer a combination of retirement benefits and a health insurance plan, compared with more than 85 percent of nonunionized workers. Finally, nearly 60 percent of unionized workers reported all four employer-sponsored benefits, compared with slightly more than 40 percent of nonunionized workers (table 7).

Annual Earnings—A third employee characteristic associated with employer-sponsored benefits is annual earnings. Although increased annual earnings are generally associated with a greater number of benefits, the number of employer-sponsored benefits does not vary widely for workers earning $10,000 or more. For example, at least 95 percent of public-sector workers earning $10,000 or more indicated that their employers offer retirement benefits, compared with 77 percent of workers earning less than $10,000 annually. In addition, at least 95 percent of public-sector employees earning $10,000 or more reported that their employers sponsor a health insurance plan, compared with 81 percent of workers with annual earnings of less than $10,000 (table 6).

The majority of public-sector nonfarm wage and salary workers who reported that their employers offer benefits had moderate earnings ($10,000–$34,999 annually). For example, moderate earners represented 68 percent of workers whose employers offer both health and retirement plans and 73 percent of those whose employers offer all four benefits (table 8).

Age—Age is another employee characteristic related to employer-sponsored benefits, with **the percentage of workers reporting benefits generally increasing with age through age 54.** Employer-sponsored benefits for the under-25 age group approximate the benefits for the aged-65-and-older population. For example, roughly 80

Table 7
Percentage of Private- and Public-Sector Nonfarm Wage and Salary Workers Whose Employers Offer Selected Benefits, by Selected Employer and Employee Characteristics, May 1988

	Workers (in millions)		No Benefits		At Least One Benefit[a]		Pension and Health[b]		All Four Benefits[c]	
Characteristic	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public
Total	84.7	17.1	19%	3%	81%	97%	54%	90%	25%	47%
Firm Size										
Less than 25	21.1	0.6	44	15	56	85	15	62	5	28
25–99	11.1	1.3	16	7	84	93	44	77	5	37
100–249	6.3	1.2	8	3	92	97	59	90	23	47
250 or more	38.4	12.9	6	1	94	99	79	96	41	50
Don't know	7.8	1.1	26	10	74	90	42	73	13	31
Union Status										
Union	10.8	6.3	3	d	97	100[e]	82	96	37	58
Nonunion	67.5	10.1	20	4	80	96	52	87	24	42
Don't know	6.4	0.7	34	11	66	89	27	75	11	23
Earnings										
<$10K	20.0	2.7	42	11	58	89	27	70	4	14
$10K–<$19,999K	25.9	5.3	12	2	88	98	56	92	22	44
$20K–<$34,999K	21.3	5.8	5	d	95	100[e]	74	96	40	61
$35K+	10.0	2.5	3	d	97	100[e]	81	98	53	68
Don't know	7.5	0.8	39	15	61	85	25	71	10	21
Age										
Under 25	17.1	1.3	34	10	66	90	35	75	11	23
25–34	26.5	4.3	14	2	86	98	58	91	28	48
35–54	31.9	9.0	13	2	87	98	60	92	31	50
55–64	7.4	2.1	17	3	83	97	56	88	25	50
65 or older	1.9	0.4	37	10	63	90	34	81	7	26
Tenure										
Less than 1 year	17.7	1.7	33	8	67	92	36	75	10	23
1–4 years	29.3	4.6	19	4	81	96	49	86	20	36
5–9 years	13.7	3.5	10	1	90	99	65	93	33	52
10–14 years	8.4	2.6	6	1	94	99	72	95	37	56
15 years or more	11.6	4.3	5	d	95	100[e]	77	96	46	62
Don't know	4.0	0.4	43	28	57	72	28	63	8	17
Sex										
Male	46.7	8.1	16	3	84	98	56	91	28	54
Female	38.0	9.0	22	3	78	97	50	88	21	41
Work Schedule										
Full time	71.2	15.0	13	2	87	98	59	93	29	52
Part time	13.5	2.1	47	13	53	87	27	68	3	10

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]Employers offer at least a pension or health plan or employees are eligible for sickness or disability benefits.
[b]Employers offer pension and health coverage.
[c]Employers offer pension and health coverage and employees are eligible for sickness and disability benefits.
[d]Less than 0.5 percent.
[e]Greater than 99.5 percent but less than 100 percent.

percent of the youngest and oldest workers indicated that their employers offer retirement benefits, compared with more than 90 percent of workers aged 25–64. Similarly, roughly 85 percent of the youngest and oldest workers reported an employer-sponsored health plan, while approximately 95 percent of workers aged 25–64 indicated that their employers offer this benefit. A similar pattern also appears for sickness and disability benefits (table 6).

Job Tenure—A fifth employee characteristic associated with employer-sponsored benefits is length of tenure, with a greater percentage of longer-tenured workers than shorter-tenured workers indicating that their employers offer benefits. **More than 95 percent of public-sector workers with five or more years of tenure indicated that their employers offer retirement benefits, and the same percentage reported that their employers offer a health insurance plan. In contrast, 81 percent of workers with less than one year of tenure responded that their employers sponsor retirement benefits.** Similarly, about 86 percent of workers with less than one year of tenure reported that their employers offer a health insurance plan. Approximately one-half of workers with less than one year of tenure indicated the availability of sick leave, compared with about 94 percent of workers with 15 or more years. The availability of disability insurance was cited by more than twice as many workers with the longest tenure as workers with the shortest tenure (table 6).

Regardless of tenure, nearly all public-sector workers reported the presence of at least one employer-sponsored benefit, ranging from 92 percent of workers with less than one year of tenure to nearly all workers with 15 years or more. Only 23 percent of workers with less than one year of tenure reported that their employers offer all four benefits, compared with 62 percent of workers with 15 or more years of tenure (table 7).

Sex—A sixth employee characteristic associated with employer-sponsored benefits is the worker's sex. **Overall, a greater percentage of men than women reported working for employers that offer benefits, although in the public sector this difference is not as great.** For example, about the same percentages of men and

Table 8

Percentage of Private- and Public-Sector Nonfarm Wage and Salary Workers with Selected Employer-Provided Benefits, by Earnings, May 1988

Sector	Total	<$10K	$10K–<$19,999K	$20K–<$34,999K	$35K+	Don't Know
Private Sector						
All workers	100%	24%	31%	25%	12%	9%
No benefits	100	54	20	6	2	18
At least one benefit[a]	100	17	33	29	14	7
Pension and health[b]	100	12	32	35	18	4
All four benefits[c]	100	4	27	40	25	4
Public Sector						
All workers	100	16	31	34	14	5
No benefits	100	57	16	3	1	23
At least one benefit[a]	100	15	32	35	15	4
Pension and health[b]	100	12	32	36	16	4
All four benefits[c]	100	5	29	44	21	2

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]Employees report that their employers sponsor either a pension or health plan or that they are eligible to receive either sickness or disability benefits.
[b]Employees report that their employers sponsor both a pension and a health plan.
[c]Employees report that their employers sponsor both a pension and a health plan and that they are eligible for sickness and disability benefits.
Note: Because of rounding, components may not add to totals.

women reported that their employers sponsor retirement benefits, a health insurance plan, sick leave, and a combination of retirement and health benefits (tables 6 and 7). The availability of disability benefits is one of the only benefit areas in which men and women differ markedly: more than one-half of men cited the availability of disability insurance, compared with slightly more than 40 percent of women (table 6).

Work Schedule—Another employee characteristic related to employer-sponsored benefits is whether a worker works full or part time. In the public sector, a greater percentage of full-time workers than part-time workers reported that their employers offer various benefits. Specifically, nearly all full-time workers reported working for employers that offer retirement benefits, compared with 74 percent of part-time workers (table 6).

◆ ◆ ◆

In the public sector, a greater percentage of full-time workers than part-time workers reported that their employers offer various benefits.

◆ ◆ ◆

The availability of sick leave and disability insurance varies widely according to work schedule. A large majority (90 percent) of full-time public-sector workers reported the availability of sick leave; more than one-half cited employer-sponsored disability insurance. In contrast, 32 percent of part-time workers reported the availability of sick leave and 13 percent reported disability insurance. Full-time workers are much more likely to report working for employers that offer all four benefits (52 percent) than part-time workers (10 percent) (tables 6 and 7).

Factors Associated with Employer-Sponsored Benefits in the Private Sector

The same factors that influence the provision of public-sector benefits determine the provision of benefits in the private sector.

Firm Size—Increased firm size is especially associated with an increase in employer-sponsored benefits among private-sector workers. **Employees in the largest firms were more likely to report all benefits, including retirement, health, sick leave, and disability.** The degree of variation between the number of benefits offered to employees in the smallest firms and the number of benefits offered to employees in the largest firms is wide. For example, less than 20 percent of workers employed by firms with fewer than 25 employees reported that their employers offer retirement benefits, compared with more than 80 percent of workers employed by firms with 250 or more employees (table 6).

Moreover, the number of private-sector workers reporting the presence of employer-sponsored health insurance ranged from less than one-half in the smallest firms to 90 percent in the largest firms. The availability of sick leave and disability insurance also varies widely with firm size, with more than twice as many workers in the largest firms citing the availability of these benefits as workers in the smallest firms (table 6).

◆ ◆ ◆

Increased firm size is especially associated with an increase in employer-sponsored benefits among private-sector workers.

◆ ◆ ◆

Union Status—**More than 80 percent of unionized workers in the private sector reported that their employers offer retirement benefits, compared with**

slightly more than one-half of nonunionized workers. Furthermore, about 90 percent of unionized workers cited the presence of employer-sponsored health insurance, compared with 75 percent of nonunionized workers. Finally, more than 80 percent of unionized workers reported that their employers offer a combination of retirement and health benefits, compared with slightly more than one-half of nonunionized workers (tables 6 and 7).

◆ ◆ ◆

In the private sector, workers with higher annual earnings generally reported a greater number of employer-sponsored benefits.

◆ ◆ ◆

Annual Earnings—In the private sector, workers with higher annual earnings generally reported a greater number of employer-sponsored benefits. For instance, at least 59 percent of workers earning $10,000 or more reported that their employers offer retirement benefits, compared with 31 percent of workers earning less than $10,000 (table 6).

The availability of sick leave also varies widely with differences in annual earnings. In fact, only 17 percent of the lowest earners cited the availability of sick leave, compared with 80 percent of workers earning $35,000 or more. Likewise, the availability of disability insurance increased with annual earnings, with about 10 percent of low earners reporting the availability of disability insurance and more than 65 percent of high earners doing so (table 6).

The majority of workers whose employers sponsor both retirement benefits and health insurance plans were moderate earners ($10,000–$34,999 annually). This group accounted for 67 percent of private-sector workers whose employers sponsor both health and retirement plans and 67 percent of those whose employers sponsor all four benefits (table 8).

Age—**Workers aged 35–54 generally reported the greatest number of employer-sponsored benefits.** The patterns are similar to those found in the public sector: the youngest (under age 25) and the oldest groups (aged 65 and older) reported similar levels of benefits. Approximately 80 percent of workers aged 25–54 reported that their employers offer a health insurance plan, while more than one-half of workers aged 25–64 reported the availability of sick leave (table 6). More than 80 percent of workers aged 25–54 reported the presence of at least one employer-sponsored benefit (table 7).

Job Tenure—**At least twice as many workers with 15 or more years of tenure as workers with less than one year indicated that their employers offer retirement benefits. Similarly, about twice as many workers with 15 or more years of tenure as workers with less than one year reported that they are eligible for sick leave.** Twenty percent of workers with less than one year of tenure reported the availability of employer-sponsored disability insurance; more than 55 percent of workers with the longest tenure cited this benefit (table 6).

Data suggest that the likelihood of private-sector workers being offered at least one benefit increases with length of tenure. Workers with less than one year of tenure were the least likely to work for employers offering at least one benefit, the combination of retirement benefits and health insurance, or all four employer-sponsored benefits. Thirty-three percent of workers with less than one year of tenure reported no employer-sponsored benefits, while 46 percent of workers with 15 or more years of tenure reported that their employer offers all four benefits. Sixty-seven percent of private-sector workers with less than one year of job tenure and 95 percent of workers with 15 or more years indicated that their employers offer at least one benefit. The likelihood of reporting a combination of retirement benefits and a health insurance plan also appears to increase with tenure. Only 36 percent of workers with less than one year of tenure reported that their employers offer this combination, compared with 77 percent of workers with 15 or more years of tenure.

Finally, 46 percent of workers with 15 or more years of tenure indicated that their employers offer all four benefits (table 7).

◆ ◆ ◆

In general, in the private sector a higher percentage of men than women indicated that they work for an employer offering benefits.

◆ ◆ ◆

Sex—In general, in the private sector a higher percentage of men than women indicated that they work for an employer offering benefits. **The availability of employer-sponsored disability insurance in particular is related to a worker's sex: 42 percent of men indicated the availability of disability insurance, compared with less than 30 percent of women** (table 6). A higher percentage of men also reported that their employers offer combinations of benefits. Twenty-eight percent of men and 21 percent of women worked for employers that offer all four benefits (table 7).

Work Schedule—In the private sector, nearly twice as many full-time workers as part-time workers reported that their employer offers retirement benefits. Full-time workers were also more likely to report that their employers offer health insurance, sick leave, and/or disability insurance (table 6). Nearly one-half of part-time workers reported that their employers offer no benefits, compared with only 13 percent of full-time workers. Only 3 percent of part-time workers reported that their employers offer all four benefits, compared with about 30 percent of full-time workers (table 7).

Retirement Plan Participation

The foregoing discussion focused in part on the proportion of all workers who reported in May 1988 that their employers provided retirement plans for at least some employees. These workers are said to be "covered" by retirement plans in the sense that retirement plans are part of their employers' compensation structure. However, only those covered workers who actually participate in their employers' plans receive retirement benefit accruals or contributions as part of their own total compensation.

In May 1988, 76 percent of covered nonfarm wage and salary workers participated in some kind of employer-provided retirement plan. These 49 million participants represented about one-half of the overall nonfarm work force.

The participation rate was higher among workers with higher earnings. **About 90 percent of all covered workers earning $20,000 or more participated, compared with 74 percent of those earning from $10,000 through $19,999 and 34 percent of those earning less than $10,000** (table 9).

The Employee Retirement Income Security Act of 1974 (ERISA) and its amendments and the Internal Revenue Code specify minimum participation standards for retirement plans offered by private-sector employers. These standards generally seek to ensure that tax-qualified retirement plans benefit a satisfactory proportion of all employees of companies sponsoring plans and that plans do not discriminate unduly in favor of higher paid employees.

Table 9

Percentage of Covered Nonfarm Wage and Salary Workers Participating in Employers' Plans, by Annual Earnings, May 1988

Annual Earnings	Percentage Participating
All Workers	76%
Less than $10,000	34
$10,000–$19,999	74
$20,000–$34,999	87
$35,000 or More	91
Not Reported	62

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.

Within these standards, however, otherwise eligible employees may be required to satisfy certain age, service, and hours-worked requirements before becoming participants.[13] As a result, covered workers who are very young, have short tenure, or work part time may not participate in their employers' retirement plans. Such workers may become participants when their age and service status changes, however.

In addition, the law allows private-sector employers some flexibility in determining who will be eligible to participate in the plan(s). Therefore, some covered workers who have satisfied the most stringent age and service requirements permitted by law may nonetheless not participate.

Finally, participation is voluntary in some retirement plans. Hence, some eligible workers who have satisfied any age and service requirements may simply elect not to participate.

[13]In 1989, two-thirds of full-time defined benefit pension participants in private establishments with 100 or more employees were in plans that imposed minimum age and/or service requirements for participation. Eighty-five percent of savings and thrift plan participants and 94 percent of deferred profit-sharing plan participants were in plans with such requirements (U.S. Department of Labor, 1990). Such requirements are rare among public-sector employers (U.S. Department of Labor, 1988).

Among the 21 percent of covered nonfarm wage and salary workers who did not participate in their employers' retirement plans in May 1988,[14] the most common reasons were voluntary decisions (39 percent), insufficient job tenure (37 percent), and part-time or part-year employment status (24 percent). Just 10 percent reported that no one in their type of job was allowed in the plan; presumably the rest could become participants through a change in age and service status or a voluntary decision.

While 61 percent of covered workers earning less than $10,000 per year did not participate in their employers' retirement plans,[15] only a small fraction of these (13 percent) reported that their jobs were excluded. These workers' lack of participation was most commonly attributed to part-time or part-year employment status (49 percent), voluntary decisions (25 percent), or insufficient tenure (24 percent) (table 10).

Viewed another way, just 2 percent of all covered workers were in jobs not included in the plan, while 8 percent simply chose not to participate. Even among

[14]An additional 3 percent of covered nonfarm workers did not report their participation status.
[15]An additional 4 percent of covered nonfarm workers earning less than $10,000 per year did not report their participation status.

Table 10
Percentage of Nonparticipating Nonfarm Wage and Salary Workers at Pension-Covered Jobs Offering Indicated Reasons for Their Failure to Participate, by Annual Earnings, May 1988

		Annual Earnings				
Reason	All Workers	Less than $10,000	$10,000–$19,999	$20,000–$34,999	$35,000 or more	Not reported
All Covered Nonparticipants (millions)	13.7	5.1	4.7	2.2	0.8	0.9
	100%	100%	100%	100%	100%	100%
Chose Not to Participate	39%	25%	43%	55%	58%	31%
Insufficient Job Tenure	37	24	46	46	46	33
Part-Time or Part-Year Status	24	49	9	4	4	27
At Ineligible Job	10	13	7	9	7	14
Too Young	2	4	1	1	0	3
Too Old	1	1	1	1	3	1
Other Reason	6	5	6	5	10	5

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
Note: Multiple responses were permitted; therefore, percentages offering various reasons will sum to more than the total.

covered workers earning less than $10,000 annually, just 8 percent were in excluded jobs; in contrast, 30 percent did not participate as a result of their part-time or part-year status, 15 percent chose not to participate, and 15 percent lacked sufficient tenure.

◆ ◆ ◆

Eighty-one percent of all nonfarm wage and salary workers whose employers offered health benefits for all employees participated in their employers' plans in May 1988.

◆ ◆ ◆

Health Plan Participation

Eighty-one percent of all nonfarm wage and salary workers whose employers offered health benefits for all employees participated in their employers' plans in May 1988. The proportion participating was lower among low-paid workers and part-time workers. Forty-one percent of workers earning less than $10,000 annually and 28 percent of part-time workers participated (table 11).

Health benefit plans, like pension plans, often impose service requirements for participation and may restrict part-time employees or other groups from participating.[16] In addition, participation in health benefit plans is often voluntary and often requires employee contributions.[17] Some workers who are eligible may decline coverage, particularly if health insurance is available from another source.

In May 1988, 39 percent of the 15 million nonfarm wage and salary workers who did not participate in their employers' health plans reported that they were ineligible to participate. (This figure includes those who

[16]In 1989, one-half of full-time medical benefit participants in private establishments with 100 or more employees were in plans that imposed minimum length-of-service requirements for participation (U.S. Department of Labor, 1990).

[17]In 1989, nearly one-half of full-time medical benefit participants in private establishments with 100 or more employees were in plans that required employee contributions (U.S. Department of Labor, 1990).

Table 11
Employer-Provided Health Benefit Participation among Nonfarm Wage and Salary Workers Whose Employers Offer Health Benefits, May 1988

Characteristic	Employer Offers Health Benefits (millions)	Participating in Employer's Plan (percentage)	Not Participating (percentage)	Participation Not Determined (percentage)
All Workers	79.8	81%	19%	a
Annual Earnings				
Less than $10,000	12.2	41	58	1%
$10,000–$19,999	26.2	83	16	a
$20,000–$34,999	24.9	93	7	a
$35,000 or more	11.9	95	4	a
Not reported	4.6	76	23	1
Work Schedule				
Part time	7.8	28	71	1
Full time	71.9	87	13	a

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]Less than 0.5 percent.

were ineligible due to failure to fulfill service or other requirements for participation.)[18] Many nonparticipants gave reasons that suggest that they voluntarily opted out of the plan. Thirty percent cited health insurance from spouses' plans and 18 percent cited insurance from other sources. Eight percent reported that the insurance was too expensive (table 12).

Sick Pay Replacement Level and Duration

The 58.1 million civilian nonfarm wage and salary workers who are eligible for paid sick leave are generally twice as likely to receive full pay replacement as they are to receive partial pay replacement (table 13).

Increased length of tenure is generally associated with full pay replacement. In fact, 63 percent of workers with 15 or more years of tenure cited eligibility for full pay replacement, compared with roughly one-half of workers with less than one year of tenure (table 13).

[18]The May 1988 CPS EBS questionnaire did not distinguish between those who were ineligible due to service or other requirements and those who were ineligible regardless of their length-of-service, hours worked, etc.

More than 25 percent of workers eligible for sick leave indicated that this leave is available to them for more than 130 days, while fewer than 10 percent of workers indicated that it would continue for five days or less (table 13).

Length of tenure appears to be associated with duration of sick leave. Approximately 20 percent of workers with less than one year of tenure reported that they have five days or fewer, compared with only 3 percent of workers with 15 or more years. In addition, 10 percent of workers with less than one year of tenure reported that their sick leave would last for more than 130 days, while nearly one-half of workers with 15 or more years of tenure who were eligible for sick leave indicated that it would last that length of time (table 13).

The level of pay replacement is another factor associated with the duration of sick leave. In general, duration is higher among workers who receive partial pay replacement. Thirteen percent of workers who receive full pay replacement indicated that they receive five or fewer days of sick leave. Fewer than 25 percent of these workers reported that full pay replacement would last for more than 130 days. In comparison, partial pay replacement is likely to continue for a longer period of

Table 12
Reasons Offered by Nonparticipating Workers at Health Benefit Covered Jobs for Their Failure to Participate, May 1988

		Annual Earnings					Work Schedule	
Reason	All Workers	Less than $10,000	$10,000–$19,999	$20,000–$34,999	$35,000 or more	Not reported	Part time	Full time
All Covered Nonparticipants (millions)	14.8	7.1	4.3	1.8	0.5	1.1	5.6	9.2
	100%	100%	100%	100%	100%	100%	100%	100%
Ineligible	39%	53%	25%	21%	12%	46%	53%	30%
Have Insurance through Spouse's Employer	30	19	41	49	49	21	23	35
Have Other Insurance	18	19	16	19	19	21	21	17
Too Expensive	8	7	10	6	9	8	3	11
Don't Need Insurance	1	1	1	1	1	4	1	2
Other Reason	6	6	7	5	11	5	5	7

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
Note: Multiple responses were permitted; therefore, percentages offering various reasons will sum to more than the total.

Table 13
Percentage of Nonfarm Wage and Salary Workers with Selected Amounts of Employer-Provided Sick Leave, by Tenure, May 1988

Sick Leave	Total	Less Than 1 Year	1–4 Years	5–9 Years	10–14 Years	15 or More Years	Don't Know
Total with Sick Leave (in millions)	58.1	6.2	18.0	11.8	8.1	17.7	1.2
Pay Replacement as a Percentage of All Workers with Sick Leave							
Full	59%	48%	58%	62%	60%	63%	50%
Partial	26	21	26	26	30	29	20
Not reported	15	31	17	12	11	8	31
Duration as a Percentage of All Workers with Sick Leave							
Total	100%	100%	100%	100%	100%	100%	100%
5 days or fewer	9	19	13	6	6	3	20
6–10 days	7	11	10	7	4	3	7
11–15 days	5	4	7	5	4	4	4
16–25 days	5	2	7	5	4	4	3
26–50 days	7	2	6	9	9	5	4
51–130 days	11	4	7	13	17	17	4
More than 130 days	26	10	16	25	35	46	10
Not reported	31	49	34	30	24	22	50

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]Less than 0.5 percent.

time: nearly one-half of the workers who receive partial pay replacement reported that it would last for more than 130 days. Just 3 percent of workers with partial replacement pay receive sick pay for five days or fewer (table 14).

Whether a worker is employed in the public or the private sector is another factor related to the level of pay replacement and the duration of sick leave, with workers in the public sector more likely than private-sector workers to receive full pay replacement and typically to receive it for a longer period. Eight out of ten public-sector workers who are eligible for sick leave reported that they receive full pay replacement, compared with one about one-half of workers in the private sector (table 14).

More than 20 percent of public-sector workers who receive full pay replacement reported that they would continue to receive sick leave for more than 130 days. Thirty percent of public-sector workers who receive partial pay replacement reported that sick pay would continue for more than 130 days. Among workers with full pay replacement, duration was generally longer in the public sector. In contrast, among workers with partial pay replacement, duration was generally longer in the private sector (table 14).

Trends in Employer Provision of Benefits

In recent years, the proportion of workers covered under most employer-provided benefit programs has declined slightly.

The proportion of nonfarm wage and salary workers reporting participation in an employer-provided pension or retirement plan at any job during the year decreased from 45.6 percent in 1979 to 41.5 percent in 1987, while the proportion reporting participation in a health plan slipped from 61.9 percent to 57.3 percent. The proportion of these workers participating in both types of plans and the proportion participating in at least one of these two plans also dropped.

Table 14
Percentage of Nonfarm Wage and Salary Workers with Selected Amounts of Employer-Provided Sick Leave, by Sector and Replacement Level, May 1988

		Sector		Replacement Level	
Sick Leave	Total	Private	Public	Full	Partial
Total (in millions)	58.1	43.9	14.2	—	—
Pay Replacement as a Percentage of All Workers with Sick Leave					
Full	59%	52%	80%	—	—
Partial	26	31	10	—	—
Other	15	17	9	—	—
Duration as a Percentage of All Workers with Sick Leave					
Total	100%	100%	100%	100%	100%
5 days or fewer	9	10	6	13	3
6–10 days	7	7	6	10	2
11–15 days	5	4	8	8	2
16–25 days	5	4	7	7	2
26–50 days	7	5	11	10	3
51–130 days	11	9	17	13	14
More than 130 days	26	27	23	23	46
Other	31	34	23	19	30

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]Less than 0.5 percent.

The proportion of full-time employees of medium-sized and large private establishments participating in most major types of employer-provided benefit programs has also declined. In a notable exception, the proportion participating in defined contribution retirement plans requiring employee contributions increased steadily from 1985 to 1989.

◆ Conclusions

Employee benefits play a large role in the compensation of U.S. employees. As the circumstances and needs of workers change, the composition of employee compensation will likely change in response.

One current trend with implications for the structure of employee compensation is the aging of the U.S. population. Members of the large baby boom cohort currently represent a disproportionately large part of the overall work force. As this cohort ages and the smaller baby bust cohort goes to work, the age distribution of the work force will shift toward older workers whose needs and preferences may differ from those of younger workers. As the baby boom cohort continues to age and begins to retire, an increasing proportion of Americans will be elderly and will depend on sources other than work for income and vital services. These forces will affect both income security and health care insurance programs.

A shift in the type of pension plan most commonly offered may partly represent a response to work force changes. **In the private sector, participation in defined contribution pension plans (which promise a specified periodic contribution to employee accounts) is growing faster than participation in traditional defined benefit pension plans (which promise a specified benefit at retirement). Defined benefit plans provided primary retirement coverage for 87 percent of plan participants in 1975; by 1987, that share had fallen to 68 percent** (Piacentini and Cerino, 1990). Defined contribution plans historically have offered faster vesting than defined benefit plans (U.S. Department of Labor, 1989), and defined contribution lump-sum benefits are generally considered more portable than defined benefit plan deferred annuities, since the former potentially provide better inflation protection than the latter. Thus, younger workers may anticipate future job changes and therefore value the faster vesting and benefit portability common to defined contribution plans. In addition, young families may be attracted by defined contribution plan provisions that allow access to plan accounts through loans or distributions prior to

[19]However, preretirement distributions granted on termination of employment are generally subject to a 10 percent excise tax and regular income tax.

retirement in the event of financial hardship or on termination of employment.[19]

◆ ◆ ◆

Between 1970 and 1989, while consumer prices overall more than doubled, the price level of medical services and commodities more than tripled.

◆ ◆ ◆

However, as the baby boom cohort ages and the work force becomes weighted more toward older workers, preferences may shift again toward defined benefit plans, which are generally characterized as providing more secure retirement protection than defined contribution plans for long-tenure employees working at the same company until retirement.[20]

The aging population's effects on retirement programs can also be seen in the Social Security Old-Age and Survivors Insurance (OASI) program. Past population shifts, in part a result of increased life expectancies, are reflected in the decrease in the ratio of OASI-covered workers to OASI beneficiaries from 16.5 in 1950 to 4.1 in 1970. In response to this change, the taxes imposed on employers and employees to finance the mostly pay-as-you-go OASI system were raised from 1.5 percent in 1950 to 5.6 percent in 1990, directly affecting the size of employer contributions to Social Security.

Health care benefit programs are also affected by the aging of the population. The elderly generally require more health care than the working age population. This increase in demand exacerbates the rapid pace of health care price inflation. Between 1970 and 1989, while consumer prices overall more than doubled, the price level of medical services and commodities more than tripled. For hospital room services alone, prices increased nearly sixfold. Propelled by these forces, national health care expenditures reached 11.1 percent of the U.S. Gross National Product by 1988, up from 7.4 percent in 1970. Between 1970 and 1989, inflation-adjusted employer spending for group health insurance (excluding Medicare) increased an average of 7.2 percent per year, to reach $145 billion. In response to these developments, employers are taking steps to slow the growth of their health care costs. Increasingly, employers are modifying compensation packages to require employees to share the cost of health insurance premiums and/or pay a larger portion of health costs out of pocket. For example, among full-time health plan participants in medium-sized and large private establishments, the proportion participating in health plans that required employee contributions for single coverage grew from 33 percent in 1983 to 46 percent in 1988 (Piacentini and Cerino, 1990). Employers hope that cost sharing and other cost management measures will discourage possible overutilization of health care services.

◆ ◆ ◆

Most Americans say they would buy long-term care insurance from an employer or insurance company if it were available, according to an EBRI/Gallup poll conducted in August 1990.

◆ ◆ ◆

The Medicare program, like OASI, has already been affected by demographic shifts; as with employer health spending, the trend has been amplified by rapid health care inflation. The employer/employee tax rate for Medicare Hospital Insurance (HI) increased from 0.6 percent in 1970 to 1.45 percent in 1986 and thereafter, affecting the composition of employee compensation. Without further tax increases or benefit cuts, the HI trust fund will be depleted between the years 2003 and

[20]The variations in benefit levels provided to workers of different ages with different patterns of mobility under different types of retirement plans are described in Piacentini, 1990.

2005, given intermediate economic and demographic assumptions (Board of Trustees, 1990).

As the population ages, the proportion requiring nursing home care or other long-term care will increase. According to a 1990 study by the Health Insurance Asociation of America (Van Gelder and Johnson, 1990), as of June 1990, 153 employers had agreed to offer a long-term care insurance plan. Most Americans say they would buy long-term care insurance from an employer or insurance company if it were available, according to an EBRI/Gallup poll conducted in August 1990 (Employee Benefit Research Institute/The Gallup Organization, Inc., 1990b).

Growing concern over the number of Americans without health insurance[21] may have implications for the composition of total compensation in the future. Initiatives to mandate or further encourage employer provision of health insurance have garnered attention at both the state and federal levels. In Hawaii, employer provision of health insurance is mandatory. Massachusetts has enacted "pay-or-play" programs under which private employers must provide health insurance to qualified employees or pay a substantial tax.[22] At the federal level, the Basic Health Benefits for All Americans Act (S. 768, H.R. 1845), a bill introduced by Sen. Edward Kennedy (D-MA) and Rep. Henry Waxman (D-CA) in the 101st Congress, would require all employers to provide at least a minimum level of health insurance benefits to employees (and their dependents) who work at least 17.5 hours per week. This bill, a revision of bills introduced in earlier Congresses, was not enacted. In 1990, the U.S. Bipartisan Commission on Comprehensive Health Care (the Pepper Commission) recommended implementation of a federal pay-or-play program.

Other forces with implications for the composition of total compensation include increasing labor force participation among women—especially those with young children—and the increase in the proportion of families with children that are headed by single women. **In 1988, 21 percent of all family households with children under age 18 were headed by women with no spouse present, up from 10 percent in 1970. Overall, women represented 45 percent of the labor force aged 16 and over in 1988, up from 38 percent in 1970, and may represent 47 percent by the year 2000.** The labor force participation rate of women aged 16 and over increased from 43 percent in 1970 to 57 percent in 1988. It is expected to reach 63 percent by the year 2000 (U.S. Department of Commerce, 1990). The increases are more pronounced among women with young children (Hayghe, 1986).

◆ ◆ ◆

Trends toward greater diversity in family structure and labor force participation patterns imply growing diversity in employee needs.

◆ ◆ ◆

These trends have led some policymakers to advocate mandating some form of employer-provided parental leave and child care benefits. In 1990, a bill to mandate certain family leave policies was passed by Congress, but it was vetoed by President Bush; the bill was reintroduced and is pending before the 102nd Congress. Many states have enacted or are considering similar legislation (Poe, 1990). Private, voluntary responses are also emerging. For example, unpaid maternity leave was available to 37 percent of full-time employees of private establishments with 100 or more employees in 1989. Unpaid paternity leave was available to 18 percent (U.S. Department of Labor, 1990). Both mandatory and voluntary initiatives have implications for the composition of employee compensation.

[21]In 1988, 33.3 million nonelderly Americans had no private health insurance coverage and were ineligible for public programs that provide coverage. See Chollet, 1990.

[22]For more information on state initiatives, see Custer, 1991.

Trends toward greater diversity in family structure and labor force participation patterns imply growing diversity in employee needs. Compensation packages that allow employee choice—granted tax preference by the Revenue Act of 1978—have emerged to accommodate that diversity by helping to eliminate possible duplicative coverage of multiworker families and to target compensation dollars toward varying worker needs. Flexible benefit plans, in which employee compensation includes benefit credits that workers can allocate across a menu of benefits, were available to 9 percent of full-time employees of private establishments with 100 or more employees in 1989. Reimbursement accounts, which permit employees to set aside money through pretax salary reduction to pay for qualified expenses such as medical costs and child care fees, were available to 23 percent (U.S. Department of Labor, 1990).[23]

The availability of appropriate employee benefit programs, whether voluntary or mandatory, to address workers' needs can enhance individual workers' and their families' economic security and may strengthen the U.S. economy overall. Social Security and employer-sponsored pensions help ensure economic security in retirement. Employer-sponsored health insurance and Medicare help broaden access to health care services. The provision of benefits such as child care and parental leave can help smooth career progress, to the overall advantage of labor markets. By targeting individual worker needs, flexible benefit programs can help raise living standards without increasing compensation costs. By offering well-tailored compensation packages, employers can help families reconcile the personal needs of the home with the economic needs of the work place.

◆ Reference List

Board of Trustees. Federal Hospital Insurance Trust Fund. *1990 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*. Baltimore, MD: U.S. Health Care Financing Administration, 1990.

Chollet, Deborah J. *Uninsured in the United States: The Nonelderly Population without Health Insurance, 1988*. Special Report no. 8. Washington, DC: Employee Benefit Research Institute, 1990.

Custer, William S. "States and Their Role in the U.S. Health Care System." *EBRI Issue Brief* no. 110 (Employee Benefit Research Institute, January 1991).

Davis, Jennifer. "Current Pension Investment Issues." *EBRI Issue Brief* no. 101 (Employee Benefit Research Institute, April 1990).

Employee Benefit Research Institute /The Gallup Organization, Inc. *Public Attitudes on Health Insurance: Full Report*. EBRI Report no. G-13. Washington, DC: Employee Benefit Research Institute, 1990a.

________. *Public Attitudes on Long-Term Care: Full Report*. EBRI Report no. G-15. Washington, DC: Employee Benefit Research Institute, 1990b

________. *Public Attitudes on the Value of Benefits: Full Report*. EBRI Report no. G-12. Washington, DC: Employee Benefit Research Institute, 1990c.

________. *Public Attitudes on Retirement Income and Savings: Full Report*. EBRI Report no. G-16. Washington, DC: Employee Benefit Research Institute, 1991.

Executive Office of the President. Office of Management and Budget. *Budget of the United States Government: Fiscal Year 1991*. Washington, DC: U.S. Government Printing Office, 1990.

Famulari, Melissa, and Marilyn E. Manser. "Employer-Provided Benefits: Employer Cost Versus Employee Value." *Monthly Labor Review* (December 1989): 24–32.

[23]Issues and trends in flexible benefit programs will be analyzed in a forthcoming *EBRI Issue Brief*.

This *Issue Brief* was written by Joseph S. Piacentini and Michael A. Anzick of EBRI with assistance from the Institute's research and education staffs.

Hayghe, Howard. "Rise in Mothers' Labor Force Activity Includes Those with Infants." *Monthly Labor Review* (February 1986): 43–45.

Piacentini, Joseph S. "Preservation of Pension Benefits." *EBRI Issue Brief* no. 98 (Employee Benefit Research Institute, January 1990).

Piacentini, Joseph S., and Timothy J. Cerino. *EBRI Databook on Employee Benefits*. Washington, DC: Employee Benefit Research Institute, 1990.

Poe, Stephanie L. "Family Leave Activity Shifts to the States." *Employee Benefit Notes* (Employee Benefit Research Institute, October 1990): 1–3.

U.S. Department of Commerce. Bureau of Economic Analysis. National Income and Product Accounts. *Survey of Current Business*, selected years. Washington, DC: U.S. Government Printing Office, selected years.

U.S. Department of Commerce. Bureau of the Census. *Characteristics of Households and Persons Receiving Selected Noncash Benefits: 1980, 1981, 1982, 1983, and 1984*. Current Population Reports. Series P-60, nos. 136, 143, 148, and 150, respectively. Washington, DC: U.S. Government Printing Office, 1982–1985.

________. Current Population Survey, March 1990.

________. Current Population Survey employee benefit supplement, May 1988.

________. *Receipt of Selected Noncash Benefits: 1985*. Current Population Reports, Series P-60, no. 155. Washington, DC: U.S. Government Printing Office, 1987.

________. *Statistical Abstract of the United States, 1990*. Washington, DC: U.S. Government Printing Office, 1990.

U.S. Department of Labor. Bureau of Labor Statistics. *Employee Benefits in Medium and Large Firms*, 1980, 1985, 1986, 1988, and 1989. Washington, DC: U.S. Government Printing Office, selected years.

________. *Employee Benefits in State and Local Government, 1987*. Washington, DC: U.S. Government Printing Office, 1988.

Van Gelder, Susan, and Diane Johnson. *Long-Term Care Insurance: A Market Update*. Washington, DC: Health Insurance Association of America, 1990.