

EBRI ISSUE BRIEF

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THE EFFECT OF CHANGING FAMILY RELATIONSHIPS ON EMPLOYEE BENEFIT PROGRAMS

Public and private sector employers are becoming increasingly concerned about employee benefits. Benefits for present employees and current program beneficiaries can now increase total compensation costs by as much as 50 percent. Yet, employees frequently find certain benefits unnecessary and others inadequate. As a result, employers are carefully considering costs and the special needs of a variety of employee groups when planning benefit programs: employees with varying degrees of skill, with differing work patterns (part-time, seasonal, full-time, professional) and differing family situations.

Employers seek to provide programs which protect employees against risks, meet special needs, and allow maintenance of a reasonable living standard should the employee's paycheck stop due to disability or retirement. The range of benefits used to meet these goals is broad. Programs such as life and health insurance benefits, death benefits and disability benefits are widespread: being provided by individual employer plans, multiemployer trusts, and government administered programs such as Social Security, Medicare and Medicaid. Programs such as group auto insurance, homeowner's insurance and day care are now being tested by some and studied by many.

Designing employee benefit programs which help to maintain productivity and morale requires continuous monitoring and adjustments to changing employer and employee needs. The traditional approach to benefit design, possible in less turbulent times, was to develop a single pattern of benefits. The "working-husband, dependent-wife-and-minor-children" model served as the family prototype around which benefit programs were built. However, growth of the two-income family and higher divorce rates have affected employee desires and needs and have thus added new elements to employee benefit program design. For example, dependents' benefits are extremely important to some employees but not needed by others. Medical care benefits may not be important to someone who is already covered as a spouse in a plan which provides equivalent benefits. Life insurance needs also differ by individual. And as the age composition of the workforce continues to shift, employee priorities will continue to change.

Other factors which affect preferences and needs include:

- * the family situation,
- * other sources of available income,

- * the willingness to assume risks,
- * priorities of individuals, and
- * the financial situation of employer and employee.

An approach now being used by some to provide benefits which may adapt to changing conditions is the flexible benefit or compensation program. Flexible programs represent a means of furnishing the employee with a benefit package tailored to at least partially accommodate individual preferences. The program usually involves a core of employer provided benefits for all the employees, plus numerical credits which allow employees to select additional benefits beyond the core. Examples of core benefits could be life and health insurance, and pension plans. Examples of additional benefits are dental care, vision care, group legal services plans, additional vacation time, disability plans, survivor benefits, prepaid prescription drug plans, day care for children, and group auto insurance.

Another set of changes will result from pressures to make benefit programs "sex neutral." Examples are unisex actuarial tables, earnings sharing for public programs, and joint ownership of, and entitlement to, employer sponsored benefits. While such changes will come at different speeds, the trends appear to be clear. Employers will have to be responsive.

TRENDS

As employee characteristics continue to fluctuate, so must employee benefits. Trends indicating a change in the family unit are reflected in statistics comparing female labor-force participation, two-income households, people living alone (single, divorced, widowed), dual-parent households, single-parent households, and unmarried couples. The changing family unit results in different employee work patterns: part-time employment, higher turnover, flexible retirement (part-time employment of retirees by the original employer), and increasing female labor force participation. The employee work pattern is also affected by the improvement of life expectancy and mortality rates, and the varying patterns of birth rates.

Family Patterns

The family has changed from a traditional unit to an entity where an increasing proportion of households are headed by women. Between 1950 and 1974 female headed households increased from 9 percent to 12 percent, and estimates for 1981 are significantly higher!

The number of women who actively participate in the labor force has increased. In 1950, 33 percent of women aged 16 and over were members of the labor force. In 1976, that figure rose to 46.8 percent. Comparing this to men, in 1950, 84.3 percent of men of that same age were in the labor force; in 1976, 76.9 percent. Labor force participation of married women went from 23.8 percent in 1950 to 45 percent in 1976. The increase indicates that marriage is less of a deterrent to women working outside the home than it was in the past.

People today are marrying at a later age than 20 years ago. In 1950, the median ages of marriage for men and women were 22.8 and 20.3 respectively. In 1973, those figures increased to 23.8 and 21.3. Divorce seems to be more acceptable, as the current rate of 5 divorces per 1,000 has doubled that of only ten years earlier. This indicates that women who are more economically self-sufficient are able to manage a divorce more easily than those who are economically dependent on another person.

Labor Force Participation and Changes

Labor force participation has grown dramatically at all age levels. The following indicates the change between 1960 and 1975:

- * Two-worker families (husband and wife) have increased from 23 percent to 30 percent of all households.
- * No-worker households have increased from 20 percent to 26 percent of all households.
- * One-worker households have decreased from 57 percent to 45 percent of all households because of two opposing trends:
 1. There was a large drop in one-worker husband/wife households, from 43 percent to 25 percent of households.
 2. There was a jump in one-worker households of other types - female heads, men and women living alone, unrelated individuals living together - from 14 percent to 20 percent of households.

The most striking change that has taken place in the overall structure of American households is the decline in the share that are headed by a married couple. Of the new households formed each year from 1950 to 1970, half or more were headed by a married couple. Since 1970, male-headed and female-headed families, and households made up of unrelated individuals have increased dramatically. Between 1975 and 1979, over 6 million households were added in the U.S. Almost 70 percent of these households were headed by a male or female not living in a nuclear family; only 11.5 percent were headed by a married couple. The overall fraction of U.S. households headed by two spouses peaked in 1949 at 79 percent. Today it has dropped to 61 percent.

In 1947, the ratio of husband-wife couples who head households to unrelated individuals who head households was about 8 to 1. In 1979 the ratio was 2.5 to 1. The drop in the ratio was not totally caused by the life style of the younger generation. Part of the decline in this period was caused by women in the older generation who increasingly outlived their husbands and decided not to live with relatives after they were widowed. Part of the decline can also be accounted for by members of the middle generation who maintained their own households instead of returning home during the spans of their lives when they were not married.

Government Policy

The period ahead promises to be filled with changes in publicly administered programs, in public employer programs and in requirements for private benefit programs. Changing family patterns will interact with, and in some cases, cause to be considered, such changes as:

- * treatment of pension and life insurance entitlements as property for purposes of divorce
- * higher Social Security normal retirement age
- * lower Social Security benefits
- * higher Social Security tax rates
- * lower Medicare and Medicaid support
- * increased regulation of private pensions
- * increased government involvement in the provision of medical care
- * increased incentives to save
- * reduced government support for day care, provision of food stamps, etc., or
- * earnings sharing in Social Security

Such policy changes would affect the design of employee benefit programs and the preferences and needs of the workforce. Therefore, likely trends in government policy must be included as a benefit design consideration.

Employers are beginning to explicitly recognize the diverse benefit needs of employees, which vary by sex, by family type, by attitudes toward saving and the ability to save. As benefit costs rise, the incentives to innovate will increase. The desire of government to shift requirements and their accompanying costs to employers will gain momentum.

CONCLUSION

Benefit program development requires examination of not only past and current practices, but of alternative design considerations. This is true for both public and private sector employees. Increasing attention must be given to the "Effect of Changing Family Relationships on Employee Benefit Programs." More must be known in order for employers to anticipate and plan. In an effort to help satisfy these information needs, the EBRI's Education and Research Fund has commissioned a number of study papers and will sponsor a Policy Forum on the subject in November, 1981. A book of readings on the subject will be published in early 1982.

ADDENDUM:

Recent Findings of the General Mills American Family Report *

The past ten years have already established a pattern for the future of families at work. More than five out of ten women living in families are now employed outside the home, while three out of ten are full-time homemakers. Most of these women working outside the home are married, and most have children under the age of eighteen at home. Looking at this dramatic picture another way, the U.S. Department of Labor reports that by 1978 the proportion of children under the age of eighteen with two working parents had risen to 50 percent, and that one working woman out of nine was the sole support of her family. The changes of the last ten years were startling and not fully anticipated.

This survey points with assurance to one indisputable fact: A majority of women will continue to work outside the home, marriage and child rearing responsibilities notwithstanding. They will work not only to help support their families, but also for personal challenge and satisfaction. Their employers, their spouses, their children, and indeed, the public in general support their right to do so. Men with working wives, in particular, sympathize with the needs and aspirations of working women. Attitudes about women working - and about the job of homemaking - have undergone profound changes.

As growing numbers of women - particularly wives and mothers - enter the work force, the competing demands between work and family responsibilities show up in answers to questions on employee benefits which people think will help them.

Family members resist efforts to prescribe a single solution for balancing family and work responsibilities. For example, while 20 percent of family members say that child care at the place of work would help a great deal, 18 percent say it would help only somewhat, and 62 percent say it either doesn't apply or would help hardly or not at all. On the other hand, when asked about part-time work with full-time benefits, 42 percent say it would help a great deal, 20 percent only somewhat, and 38 percent say either little or no help, or doesn't apply. This diversity of viewpoint is not surprising when one considers that family needs vary widely, depending upon such changing variables as children's ages, financial circumstances, other dependents and the like.

In the area of child care, paid personal days specifically for children and family, and paid disability and personal leaves for more than six weeks for pregnancy and maternity, head the list of benefits family members say would help them balance work and family responsibilities (standard disability provisions currently allow six weeks' leave). Working women and women who say they plan to enter the work force feel most strongly that these benefits would help their families.

Part-time work for two or three days a week with full-time benefits and flexibility in selecting the benefits that are best for one's family needs are also considered helpful by substantial majorities of adults. Fewer

*Families at Work: Strengths and Strains was reprinted courtesy of General Mills, Inc., 9200 Wayzata Boulevard, Minneapolis, MN-55440. The study was conducted by Louis Harris and Associates, Inc., 1980-81.

adults regard job counseling and job hunting services for a spouse following transfer as especially helpful. Again, working women and women planning to work are most likely to consider these benefits helpful.

Human resource executives and labor leaders generally agree with these assessments. However, human resource executives tend to considerably overestimate the degree of helpfulness to most families of such benefits as more than six weeks of disability and leave for pregnancy and maternity, and paid personal days for children and family responsibilities. For at least two benefits, job counseling and job searching for spouses of relocated employees, and child care at the place of work, their estimates of helpfulness (90 percent and 77 percent respectively) are not reflected in the attitudes of family members, who generally feel that these benefits would not help much (36 percent and 43 percent respectively) or don't apply to their situations (15 percent and 19 percent respectively).

When family members were asked whether they would accept a smaller pay raise in order to obtain each benefit they had said would help them "a great deal," part-time work with full-time benefits emerged as the benefit with the greatest breadth and depth of support. Paid personal leave for fathers for paternity received the least amount of combined support.

35 BENEFITS THAT MIGHT HELP BALANCE FAMILY AND WORK RESPONSIBILITIES: FAMILY MEMBERS

There are benefits that organizations could provide their employees that might help them balance their family and work responsibilities. If you or another member of your family were offered (READ EACH ITEM), would it help you and your family a great deal, somewhat, hardly at all, or not at all?

Would you or your spouse accept a smaller pay raise next year for (READ EACH ITEM), or not?

	Total Family Members	Working Men	Working Women	Working Mothers	Women Plan- ning To Work	Accept Smaller Raise
Base	1503	583	431	245	133	Base: Those Who Said Specific Benefit Would Help "A Great Deal" (Rank)
	%	%	%	%	%	
Child care benefits						
Paid personal days specifically for children and for family responsibilities						
Great deal	25	21	30	37	42	4
Somewhat	25	28	27	30	35	
Hardly/not at all	30	38	25	22	14	
Doesn't apply/already have (vol.)	18	12	16	10	8	
Paid disability and personal leave for mothers for more than six weeks for pregnancy and maternity						
Great deal	30	29	36	35	37	5
Somewhat	14	14	12	14	24	
Hardly/not at all	34	42	34	37	24	
Doesn't apply/already have (vol.)	21	15	18	12	14	
Child care at the place you or your spouse works						
Great deal	20	15	25	29	28	2
Somewhat	18	19	15	16	32	
Hardly/not at all	43	54	41	44	29	
Doesn't apply/already have (vol.)	19	11	18	10	10	
Paid personal leave for fathers for paternity						
Great deal	18	16	20	22	29	6
Somewhat	19	21	19	20	31	
Hardly/not at all	41	49	42	43	23	
Doesn't apply/already have (vol.)	21	12	19	15	15	
Other Benefits						
Freedom to pick and choose the employment benefits that are best for your family's needs						
Great deal	50	48	58	62	65	3
Somewhat	24	30	23	23	25	
Hardly/not at all	12	14	9	9	4	
Doesn't apply/already have (vol.)	12	6	7	6	4	
Part-time work for two or three days a week with full-time employment benefits						
Great deal	42	36	49	53	66	1
Somewhat	20	21	19	19	23	
Hardly/not at all	25	38	22	19	7	
Doesn't apply/already have (vol.)	13	5	10	8	3	