

The Changing World of Work and Employee Benefits

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Issue Brief

- The change in employers' philosophy from paternalism to individual choice and responsibility has been accompanied by a closer look by both employers and workers at work force patterns. In some areas, such as the age of the population, the numbers are changing dramatically. In others, such as job tenure and the incidence of career employment, they have actually changed little. This *Issue Brief* adds perspective to statistics on demographics relating to the changing labor force, the ways in which work is changing to accommodate the numbers, and prospects for employee benefits in dealing with the changes.
- The median age of the population will increase by 14.9 percent, or 5.1 years, by the time the last of the World War II baby boomers move past their early 60s in 2040, under the Census Bureau's middle series assumptions.
- Average household size was 3.37 persons in 1950, 2.69 persons in 1985, and 2.67 persons in 1994. In 1960, 85 percent of all households were family households, declining to 72 percent in 1985 and 71 percent in 1993. Only 30.5 percent of married women participated in the labor force in 1960, increasing to 54.2 percent in 1985 and 59.4 percent in 1993. These patterns affect consumption and saving patterns and issues related to the building of retirement assets. They also affect relative demand for health benefits and for benefit flexibility.
- The educational attainment of the labor force is growing. In 1970, persons with less than a high school diploma represented 36.1 percent of the labor force, compared with 12.8 percent in 1991. In 1970, persons with some college education represented 11.8 percent of the labor force, compared with 21.3 percent in 1991; persons with four years or more of college made up 14.1 percent of the labor force in 1970, compared with 26.7 percent in 1991.
- Between 1987 and 1992, firms with fewer than 100 employees created 16.9 million new jobs, compared with firms with more than 1,000 employees, which created 5.1 million jobs. Since these small firms are less likely to have employee benefit programs, there are implications for future economic security and retirement patterns.
- In 1993, 19 percent of workers had been in the same job for less than one year, 3 percent had been at their current job between 1 and 4 years, 20 percent had been at the current job between 5 and 9 years, 17 percent had been at their current job 15 or more years, and 2 percent did not know how long they had been at their current job. This represented very little change from data collected in 1983.
- A problem with the reporting of wage and salary earnings is that the index does not capture the value of employee benefits, which are a rapidly growing segment of total compensation. In 1960, noncash benefits accounted for 8.0 percent of total compensation, increasing to 17.8 percent by 1993.

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Introduction

The world of work is changing. Employers have increasingly moved

away from a philosophy of paternalistically looking after employees. While there are always exceptions, the exceptions have been the focus of very little attention. The journals and the media treat the shift as universal. This change seems to have been tied to a number of factors. First, it seems to have accompanied the movement to a global economy and the competition that came with it. Second, it seems to have accompanied the movement of many large enterprises from family ownership or control to circumstances that make responsiveness to shareholders a necessity. Third, it seems to accelerate as enterprises reach outside for new executives who have not spent a career with the enterprise. Fourth, the change has occurred as market and product change has accelerated. Fifth, it has happened as markets have been deregulated and public policymakers have begun to emphasize individual choice. Sixth, it has come as both public and private employers have focused on the long-term costs of employment-related benefits that are largely funded on a pay-as-you-go basis, e.g., Social Security, Medicare, and employer-provided retiree medical benefits.

This change in perspective from paternalism to individual choice and responsibility has been accompanied by a closer look by both employers and workers at work force patterns and an increased emphasis on the provision of programs that active workers will appreciate. In some areas, such as the age of the population, the numbers are changing dramatically. In others, such as job tenure and the incidence of career employment, they have actually changed little. In some areas, the trend may actually be in the opposite direction of popular wisdom. The following sections look at each of these areas with summary

statistics. The phrase “demographics is destiny” will assume new meaning in the decades ahead as work forces, and therefore consumer markets, take on a new face and the consumer market represented by the retired population explodes. A crucial question: will that retired population have funds to spend on consumption; and, if they do, will the working population? **This *Issue Brief's* discussion will add perspective to statistics on demographics about the changing labor force, the ways in which work is changing to accommodate the numbers, and the prospects for employee benefits in dealing with the changes.**

Changes in Age

Household and Family Structure

The median age of the population (table 1) will increase by 14.9 percent, or 5.1 years, by the time the last of the World War II baby boomers move past their early 60s in 2040, under the Census Bureau's middle series assumptions. Those who believe that high rates of immigration will help slow the aging of the population will prefer the assumption that the increase will be limited to 2 years, while those who look to lower immigration but medical extensions and improvements in life expectancy foresee a growth of at least 6.2 years.

The age distribution changes in significant ways in producing this increase in median age (table 2). The aged 85 and over population will grow to at least 3.7 percent of the population in 2040 from 1.4 percent today, with some projections taking it to 3.7 percent. The aged 65 and over population will grow to at least 19.5 percent of the population from 12.8 percent today, with some projections taking it to 20.7 percent. The aged 45 and over population grows from 32.3 percent to 42.8 percent of the total population. This portends major

Table 1
Projections of the Median Age of the Total Population, Selected Years 1995–2050
Based on Alternative Census Bureau Assumptions^a

	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Middle Series												
Median age	34.3	35.7	36.7	37.4	37.5	38.0	38.5	39.0	39.4	39.4	39.3	39.3
Highest Series												
Median age	34.3	35.5	36.1	36.4	36.3	36.4	36.5	36.6	36.5	36.3	36.1	36.1
High Life Expectancy Series												
Median age	34.4	35.8	36.9	37.7	38.0	38.5	39.1	39.8	40.3	40.6	40.6	40.7

Source: U.S. Department of Commerce, Bureau of the Census, *Population Projections of the United States, by Age, Sex, and Hispanic Origin: 1993 to 2050*, Current Population Reports, Series P-25-1092 (Washington, DC: U.S. Government Printing Office, 1992).

^aThe U.S. Bureau of the Census projects future population growth using 10 alternative projections that are based on projected degrees of change in fertility, life expectancy, and net immigration, assuming low growth, middle growth, and high growth. The middle series assumes middle level growth in all three components. The highest series assumes high level growth in all three components. The high life expectancy series assumes middle level growth in fertility, high level growth in life expectancy, and middle level growth in net immigration. The future size of the elderly population is projected to be smaller under the high life expectancy series projection than under the highest series projection. However, high life expectancy series projections indicate that the elderly will account for a greater percentage of the total population than under the highest series projections because the total population is also projected to be smaller. Other Census Bureau projection series include lowest, low fertility, high fertility, low life expectancy, low net immigration, high net immigration, and zero net immigration.

change in the work place, in the retired population, for those seeking work, and for employers seeking to retire workers.

The median age of the work force continues to climb during this period, even though Census projections only take us to 2005.

Median Age of the Work Force, 1993				
Year	1965	1979	1995	2005
Total	40.5	34.7	37.8	40.5

Age and Gender Trends in the Labor Force

The labor force increased by 48.3 million people between 1970 and 1994, or close to 60 percent (table 3), with added growth of 19.4 million people projected by 2005.

The percentage of women participating in the labor force has increased by more than 15 percent over the past 25 years (chart 1). In 1994, 58.8 percent of women were in the labor force, compared with 43.3 percent in 1970 (table 3). According to the Census projections, this figure should reach 63.2 percent by 2005 and 86.2 percent for women between ages 35 and 44. Work force participation will decrease to a 52.4 percent rate for women aged 55–64.

There has been a slow but steady decline in the percentage of men in the labor force over the

past 25 years (chart 1). In 1970, close to 80 percent of men were in the labor force, compared with 75.1 percent in 1994 (table 3).

Women aged 25–34 experienced the largest growth in participation in the labor force. In 1970, 45.0 percent of women aged 25–34 participated in the labor force, compared with 74.0 percent in 1994, a 29 percentage point increase (table 3). Census projections show that the percentage of labor force participants among women in this age group will increase to 80.7 percent in 2005.

Men aged 55–64 have experienced the largest decline in participation in the labor force. In 1970, 83.0 percent of men aged 55–64 participated in the labor force, compared with 65.5 percent in 1994 (table 3). Census projects that early exit from the labor force will continue, with a participation rate of 69.7 percent for men aged 55–64 in 2005, compared with 83 percent in 1970. With changes in savings rates, the structure of pensions, and the redesign of health care payments, can a continuation of this trend be expected?

In 1994, the labor force consisted of 54.0 percent men and 45.9 percent women, compared with 61.8 percent men and 38.1 percent women in 1970 (table 3).

The bolded numbers in table 4 illustrate the effects of the baby boom generation on the labor force. As the baby boom generation approaches each age cohort, there is an increase in the labor force percentage distribution; this percentage increases as the number of baby boomers in the age group increases and then declines as the boomers move into the next age cohort. For example,

Table 2
**Projections of the Population and the Median Age of the Total Population, 1995–2050,
 Based on Alternative Census Assumptions**

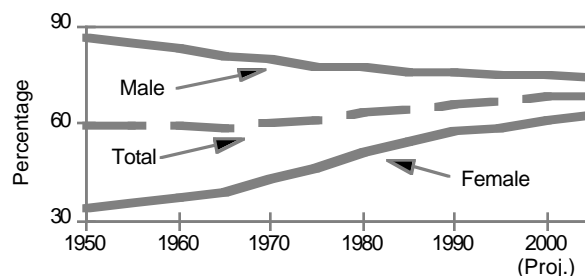
	1995	2000	2005	2010	2020	2030	2040	2050
(percentage)								
Lowest Series Population								
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under 5 years	7.6	6.7	6.1	5.9	6.0	5.6	5.6	5.7
5–13 years	13.0	13.3	12.5	11.4	10.8	10.8	10.4	10.6
14–17 years	5.5	5.8	6.0	5.8	5.0	5.1	5.0	4.9
18–24 years	9.6	9.4	9.9	10.3	9.2	8.6	9.0	8.7
25–34 years	15.8	13.8	12.7	12.8	13.9	12.5	12.2	12.6
35–44 years	16.0	16.5	15.2	13.4	12.6	13.8	12.7	12.5
45–64 years	19.6	21.9	24.9	27.1	26.3	23.4	24.6	25.1
65 years and over	12.8	12.7	12.7	13.2	16.3	20.1	20.5	19.8
85 years and over	1.4	1.5	1.7	1.8	1.8	2.0	2.8	3.5
100 years and over	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Middle Series Population								
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under 5 years	7.7	7.0	6.7	6.7	6.7	6.5	6.5	6.5
5–13 years	13.0	13.2	12.8	12.1	11.9	11.9	11.6	11.7
14–17 years	5.5	5.7	5.9	6.5	5.3	5.4	5.3	5.3
18–24 years	9.7	9.4	9.8	10.1	9.3	9.1	9.3	9.1
25–34 years	15.8	13.8	12.8	12.7	13.4	12.4	12.4	12.6
35–44 years	16.0	16.3	14.9	13.2	12.2	12.9	12.1	12.2
45–64 years	19.5	21.7	24.3	26.2	24.9	21.8	22.1	22.3
65 years and over	12.8	12.8	12.8	13.3	16.4	20.1	20.7	20.4
85 years and over	1.4	1.6	1.8	2.0	2.1	2.5	3.7	4.8
100 years and over	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3
Highest Series Population								
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under 5 years	7.7	7.4	7.4	7.5	7.7	7.7	7.8	7.9
5–13 years	13.0	13.2	13.0	12.8	13.1	13.2	13.3	13.5
14–17 years	5.5	5.7	5.8	5.7	5.6	5.8	5.7	5.8
18–24 years	9.7	9.4	9.7	9.8	9.4	9.6	9.7	9.7
25–34 years	15.8	13.9	12.8	12.6	12.9	12.4	12.6	12.6
35–44 years	16.0	16.2	14.8	13.1	11.8	12.0	11.6	11.8
45–64 years	19.5	21.4	23.8	25.3	23.6	20.4	19.8	19.6
65 years and over	12.8	12.7	12.7	13.2	15.8	19.0	19.5	19.0
85 years and over	1.4	1.6	1.8	2.1	2.3	2.8	4.0	5.2
100 years and over	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.5

Source: U.S. Department of Commerce, Bureau of the Census, *Population Projections of the United States, by Age, Sex, and Hispanic Origin: 1993 to 2050*, Current Population Reports, Series P-25-1104 (Washington, DC, U.S. Government Printing Office, 1993).

in 1960, persons aged 20–24 made up 9.6 percent of the labor force; as the boomers moved into this age group, 12.8 percent of the labor force was aged 20–24 in 1970. This age group peaked at 14.9 percent of the labor force in 1980, and as the last of the boomers left this age group in 1984, persons aged 20–24 made up only 14.1 percent of the labor force. That number continues to decline; in 1994, only 10.8 percent of the labor force was aged 20–24. This trend can be seen with each age group.

The labor force will see another dramatic increase in workers as the next baby boom generation is expected to enter the work force in five years. During the original baby boom—between 1946 and 1964—there were approximately 76 million births. Between 1977 and 1993, the next baby boom, there were approximately 72 million

Chart 1
**Labor Force Participation Rates by Gender,
 Actual 1950–1994, Projected 2000–2005**



Source: U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics of the United States* (Washington, DC: U.S. Government Printing Office, 1989); and U.S. Department of Commerce, Bureau of the Census, *Population Projections of the United States, by Age, Sex, Race, and Hispanic Origin* (Washington, DC: U.S. Government Printing Office, 1993).

births. This increase will again alter the makeup of the labor force. It will also mean a large growth in those seeking entry level jobs as members of this new baby boom generation reach the ages at which they will begin to contemplate retirement.¹

Household Size

How we live influences our needs and preferences. **Average household size was 3.37 persons in 1950, 2.69 persons in 1985, and 2.67 persons in 1994.² In 1960, 85 percent of all households were family households, declining to 72 percent in 1985 and 71 percent in 1993 (table 5). Only 30.5 percent of married women participated in the labor force in 1960, increasing to 54.2 percent in 1985 and 59.4 percent in 1993.³** These patterns affect consumption and saving patterns and issues related to the building of retirement assets. They also affect relative demand for health benefits and for benefit flexibility.

The makeup of families with children has also changed, with a direct impact on the factors noted above. We have

¹ Susan Mitchell, "The Next Baby Boom," *American Demographics* (October 1995): 22-31.

² U.S. Department of Commerce, Bureau of the Census, *Household and Family Characteristics: March 1994* (Washington, DC: U.S. Government Printing Office, 1995).

³ _____. *Statistical Abstract of the United States, 1994* (Washington, DC: U.S. Government Printing Office, 1994).

Table 3
Civilian Labor Force, Participation Rates,
and Percentage Distribution with Projections: 1970-2005

Race, Gender, and Age	1970	1980	1990	1993	1994	2000 (proj.)	2005 (proj.)
(millions)							
Total	82.8	106.9	124.8	128.0	131.1	141.8	150.5
Male	51.2	61.5	68.2	69.6	70.8	75.3	78.7
16-19 years	4.0	5.0	3.9	3.6	3.9	4.4	4.6
20-24 years	5.7	8.6	7.3	7.2	7.5	7.2	8.1
25-34 years	11.3	17.0	19.8	19.1	18.9	17.2	16.5
35-44 years	10.5	11.8	17.3	18.5	19.0	20.7	19.6
45-54 years	10.4	9.9	11.2	12.6	13.0	15.8	18.1
55-64 years	7.1	7.2	6.8	6.6	6.4	7.7	9.6
65 years and over	2.2	1.9	2.0	2.0	2.2	2.1	2.2
Female	31.5	45.5	56.6	58.4	60.2	66.6	71.8
16-19 years	3.2	4.4	3.5	3.3	3.6	4.0	4.2
20-24 years	4.9	7.3	6.6	6.4	6.6	6.4	7.2
25-34 years	5.7	12.3	16.0	15.4	15.5	14.9	14.8
35-44 years	6.0	8.6	14.6	15.7	16.3	18.8	18.6
45-54 years	6.5	7.0	9.3	15.9	11.4	14.9	17.4
55-64 years	4.2	4.7	5.1	5.2	5.3	6.2	7.8
65 years and over	1.1	1.2	1.5	1.5	1.7	1.6	1.7
Participation Rate (percentage)							
Total	60.4%	63.8%	66.4%	66.2%	66.6%	68.2%	68.8%
Male	79.7	77.4	76.1	75.2	75.1	75.3	74.7
16-19 years	56.1	60.5	55.7	53.1	54.1	55.4	55.5
20-24 years	83.3	85.9	84.3	83.1	83.1	84.0	84.4
25-34 years	96.4	95.2	94.2	93.5	92.6	93.1	93.5
35-44 years	96.9	95.5	94.4	93.5	92.8	93.7	93.5
45-54 years	94.3	91.2	90.7	90.1	89.1	90.4	90.2
55-64 years	83.0	72.1	67.7	66.5	65.5	69.1	69.7
65 years and over	26.8	19.0	16.4	15.6	16.8	15.0	14.7
Female	43.3	51.5	57.5	57.9	58.8	61.6	63.2
16-19 years	44.0	52.9	51.8	49.9	51.3	52.0	52.4
20-24 years	57.7	68.9	71.6	71.3	71.0	72.5	73.6
25-34 years	45.0	65.5	73.6	73.6	74.0	78.1	80.7
35-44 years	51.1	65.5	76.5	76.7	77.1	83.0	86.2
45-54 years	54.4	59.9	71.2	73.5	74.6	79.7	82.8
55-64 years	43.0	41.3	45.3	47.3	48.9	50.3	52.4
65 years and over	9.7	8.1	8.7	8.2	9.2	8.5	8.8
Percentage Distribution							
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Male	61.8	57.5	54.6	54.3	54.0	53.1	52.2
16-19 years	7.8	8.1	5.7	5.2	5.5	5.8	5.8
20-24 years	11.1	14.0	11.1	10.3	10.6	9.6	10.3
25-34 years	22.1	27.6	29.0	27.4	46.7	22.8	21.0
35-44 years	20.5	19.2	25.4	26.6	26.8	27.5	24.9
45-54 years	20.3	16.1	16.4	18.1	18.4	21.0	23.0
55-64 years	13.9	11.7	10.0	9.5	9.0	10.2	12.2
65 years and over	4.3	3.1	2.9	2.9	3.1	2.9	2.8
Female	38.1	42.6	45.4	45.6	45.9	47.0	47.7
16-19 years	10.2	9.7	6.2	5.7	6.0	6.0	5.8
20-24 years	15.6	16.0	11.7	11.0	11.0	9.6	10.0
25-34 years	18.1	27.0	28.3	26.4	25.7	22.4	20.6
35-44 years	19.0	18.9	25.8	26.9	27.1	28.2	25.9
45-54 years	20.6	15.4	16.4	18.7	18.9	22.1	24.2
55-64 years	13.3	10.3	9.0	8.9	8.8	9.3	10.9
65 years and over	3.5	2.6	2.7	2.6	2.8	2.4	2.4

Source: U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States: 1994* (Washington, DC: U.S. Government Printing Office, 1994); and U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 1995 (Washington, DC: U.S. Government Printing Office, 1995).

Table 4
Civilian Labor Force Aged 16 and Over, by Age and Percentage Distribution, Selected Years 1960–1994

Year	Civilian Labor Force	Number (millions)							Percentage Distribution						
		16–19 years	20–24 years	25–34 years	35–44 years	45–54 years	55–64 years	65+ years	16–19 years	20–24 years	25–34 years	35–44 years	45–54 years	55–64 years	65+ years
1960	69.6	4.9	6.7	14.4	16.3	14.8	9.4	3.2	7.0%	9.6%	20.7%	23.4%	21.3%	13.5%	4.6%
1965	74.5	5.9	8.3	14.2	16.8	15.8	10.4	3.1	7.9	11.1	19.1	22.6	21.2	13.9	4.2
1970	82.8	7.3	10.6	17.1	16.5	17.0	11.3	3.2	8.8	12.8	20.6	19.9	20.5	13.6	3.9
1975	93.8	8.9	13.8	22.9	16.9	17.1	11.3	3.0	9.5	14.7	24.4	18.0	18.2	12.1	3.2
1980	106.9	9.4	15.9	29.2	20.4	16.9	12.0	3.1	8.8	14.9	27.3	19.1	15.8	11.2	2.9
1981	108.7	9.0	16.1	30.4	21.2	17.0	12.0	3.0	8.3	14.8	28.0	19.5	15.6	11.0	2.8
1982	110.2	8.5	16.1	31.2	22.5	16.9	12.0	3.0	7.7	14.6	28.3	20.4	15.3	10.9	2.7
1983	111.6	8.1	16.1	31.8	23.7	16.9	12.1	3.0	7.3	14.4	28.5	21.2	15.1	10.8	2.7
1984	113.5	7.9	16.0	32.7	25.0	17.0	11.9	3.0	7.0	14.1	28.8	22.0	15.0	10.5	2.6
1985	115.5	7.9	15.7	33.6	26.1	17.3	12.0	2.9	6.8	13.6	29.1	22.6	15.0	10.4	2.5
1986	117.8	7.9	15.4	34.6	27.2	17.8	11.9	3.1	6.7	13.1	29.4	23.1	15.1	10.1	2.6
1987	119.9	8.0	15.0	35.3	28.4	18.2	11.9	3.1	6.7	12.5	29.4	23.7	15.2	9.9	2.6
1988	121.7	8.0	14.5	35.5	29.5	19.1	11.8	3.3	6.6	11.9	29.2	24.2	15.7	9.7	2.7
1989	123.9	7.9	14.1	35.9	30.6	19.9	11.9	3.5	6.4	11.4	29.0	24.7	16.1	9.6	2.8
1990	124.6	6.8	13.6	35.7	32.4	20.8	12.0	3.4	5.5	10.9	28.7	26.0	16.7	9.6	2.7
1991	125.3	6.9	13.7	35.3	33.0	21.1	11.8	3.5	5.5	10.9	28.2	26.3	16.8	9.4	2.8
1992	127.0	6.8	13.7	35.1	33.6	22.4	11.9	3.6	5.4	10.8	27.6	26.5	17.6	9.4	2.8
1993	128.0	6.8	13.6	34.5	34.3	23.5	11.9	3.5	5.3	10.6	27.0	26.8	18.4	9.3	2.7
1994	131.1	7.5	14.1	34.4	35.2	24.3	11.7	3.8	5.7	10.8	26.2	26.8	18.5	8.9	2.9

(Boldface numbers show how the baby boom generation has affected the labor force.)

Source: Employee Benefit Research Institute tabulations of the U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*, 1985 and 1991 (Washington, DC: U.S. Government Printing Office, 1985 and 1991); and Employee Benefit Research Institute tabulations of the U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 1991, 1992, 1993, 1994, and 1995 (Washington, DC: U.S. Government Printing Office, 1991, 1992, 1993, 1994, and 1995).

Table 5
Changes in Household and Family Structure, Selected Years 1960–1993

Type	1960		1985		1993	
	Number	Percentage	Number	Percentage	Number	Percentage
(thousands)						
Total Households	53,087	100.0%	86,788	100.0%	96,391	100.0%
Nonfamily households	7,939	15.0	24,082	28.0	28,247	29.0
Family households	45,148	85.0	62,706	72.0	68,144	71.0
With own children under 18	25,690	48.0	31,112	36.0	33,257	35.0
Without own children under 18	19,458	37.0	31,594	36.0	34,887	36.0
Male householder, no spouse present	1,295	3.0	2,227	2.0	3,026	3.0
With own children under 18	301	1.0	896	1.0	1,324	1.0
Without own children under 18	994	2.0	1,331	1.0	1,702	2.0
Female householder, no spouse present	4,196	7.0	10,129	12.0	11,947	12.0
With own children under 18	1,891	3.0	6,006	7.0	7,226	7.0
Without own children under 18	2,305	4.0	4,123	5.0	4,721	5.0

Source: U.S. Department of Commerce, Bureau of the Census (Washington, DC: U.S. Government Printing Office, 1986 and 1994).

Table 6
Educational Attainment of the Civilian Noninstitutional Labor Force Aged 25–64, by Gender, Selected Years 1970–1991^a

		Percentage Distribution				Participation Rate ^b				
		Less than high school	High school graduate	College		Total	Less than high school	High school graduate	College	
Total (thousands)				1–3 years	4 years or more				1–3 years	4 years or more
Total										
1970 ^c	61,765	36.1%	38.1%	11.8%	14.1%	70.3%	66.5%	70.2%	73.8%	82.3%
1975	67,774	27.5	39.7	14.4	18.3	70.5	61.6	70.5	75.7	84.5
1980	78,010	20.6	39.8	17.6	22.0	73.9	60.7	74.2	79.5	86.1
1985	88,424	15.9	40.2	19.0	24.9	76.2	59.9	75.9	81.6	87.7
1986	90,500	15.5	40.2	19.5	24.8	76.4	60.4	76.0	81.2	87.6
1987	92,966	14.9	40.2	19.7	25.3	77.2	60.9	76.6	81.9	88.1
1988	94,870	14.7	39.9	19.7	25.7	77.5	60.8	76.9	82.5	88.4
1989	97,318	14.0	39.6	20.0	26.4	78.2	60.5	77.9	83.3	88.4
1990 ^d	99,981	13.3	39.4	20.8	26.5	78.9	61.4	78.4	83.5	88.6
1991 ^d	101,171	12.8	39.2	21.3	26.7	78.8	61.0	78.2	83.4	88.3
Male										
1970 ^c	39,303	37.5	34.5	12.2	15.7	93.5	89.3	96.3	95.8	96.1
1975	41,628	28.9	36.1	14.8	20.2	90.3	82.6	93.2	93.3	95.7
1980	45,417	22.2	35.7	17.7	24.3	89.4	78.8	91.9	92.4	95.3
1985	49,647	17.7	36.9	18.3	27.1	88.6	72.2	90.0	91.2	94.6
1986	50,733	17.2	37.0	18.9	26.9	88.4	75.9	89.8	91.0	94.4
1987	51,860	16.8	37.1	18.9	27.2	88.8	77.2	89.6	91.9	94.2
1988	52,616	16.5	37.3	18.5	27.8	88.6	76.4	89.5	91.3	94.4
1989	53,668	15.7	36.9	19.2	28.2	88.8	75.9	89.6	91.8	94.5
1990 ^d	55,049	14.9	37.3	19.8	28.0	89.3	76.4	90.1	92.1	94.6
1991 ^d	55,554	14.5	37.1	20.3	28.2	88.9	75.9	89.4	91.9	94.3
Female										
1970 ^c	22,462	33.5	44.3	10.9	11.2	49.0	43.0	51.3	50.9	60.9
1975	26,146	26.5	45.5	13.9	14.1	52.3	44.1	53.9	57.3	62.7
1980	32,593	18.4	45.4	17.4	18.7	59.5	43.7	61.2	66.4	73.4
1985	38,779	13.7	44.4	19.9	22.0	64.7	44.3	65.0	72.5	78.6
1986	39,767	13.2	44.3	20.3	22.2	65.1	45.1	65.3	71.9	78.8
1987	41,105	12.5	44.0	20.7	22.8	66.2	44.9	66.4	72.7	80.3
1988	42,254	12.4	43.3	21.2	23.1	67.1	45.4	66.9	74.7	80.8
1989	43,650	11.9	42.9	20.9	24.3	68.3	45.5	68.5	75.4	81.1
1990 ^d	44,932	11.2	42.1	22.1	24.6	69.1	46.5	68.8	75.7	81.3
1991 ^d	45,617	10.7	41.8	22.5	25.0	69.3	46.0	68.9	75.8	81.3

Source: U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*, 1991, 1992 (Washington, DC: U.S. Government Printing Office, 1991 and 1992).

^aBeginning in 1992, the method of computing educational attainment data was changed. The educational level of the U.S. work force is now measured through a new classification system based on the highest academic degree an individual has attained. This differs from the past, when the educational level was based on the number of years of school a person had completed. The change, which began with the January 1992 Current Population Survey, provides a more precise measurement of the educational level of the U.S. labor force, especially for those who have high school diplomas or higher level degrees.

^bPercentage of the civilian population in each group in the civilian labor force.

^cIncludes black and white races only.

^dAnnual averages of monthly data; not strictly comparable with previous years.

seen increases in married-couple-only households and female-headed families and very rapid growth of non-family households.

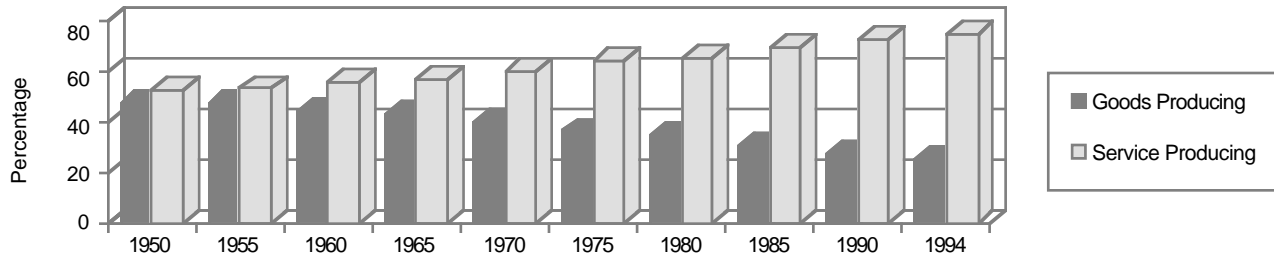
Work Force Changes

Skill Levels

The educational attainment of the labor force

is growing. In 1970, persons with less than a high school diploma represented 36.1 percent of the labor force, compared with 12.8 percent in 1991 (table 6). The percentage of high school graduates making up the labor force remained roughly the same over that same time period. In 1970, 38.1 percent of the labor force had graduated from high school, compared with 39.2 percent in 1991. Persons with 1–3 years of college education and college graduates experienced increases in the percentage distribution in the labor force. **In 1970, persons**

Chart 2
Employment in Goods Producing and Service Producing Industries as a Percentage of Total Private Industry, Selected Years 1950–1994



Source: Employee Benefit Research Institute tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 1995 (Washington, DC: U.S. Government Printing Office, 1995).

Table 7
Employment in Private Nonagricultural Establishments, by Industry, Selected Years 1950–1994

Industry	1950	1955	1960	1965	1970	1975	1980	1985	1990	1994
(millions)										
Total private	39.2	43.7	45.8	50.7	58.2	62.3	74.2	81.1	91.1	94.4
Goods producing industries	18.5	20.5	20.4	21.9	23.6	22.6	25.7	24.9	24.9	23.6
mining	0.9	0.8	0.7	0.6	0.6	0.8	1.0	0.9	0.7	0.6
construction	2.3	2.8	2.9	3.3	3.6	3.5	4.3	4.7	5.1	4.9
manufacturing	15.2	16.9	16.8	18.1	19.4	18.3	20.3	19.3	19.1	18.1
Service producing industries	20.7	23.2	25.4	28.8	34.6	39.7	48.5	56.1	66.2	70.8
transportation and public utilities	4.0	4.1	4.0	4.0	4.5	4.5	5.1	5.2	5.8	5.8
wholesale trade	2.5	2.9	3.1	3.4	4.0	4.4	5.3	5.7	6.2	6.1
retail trade	6.9	7.6	8.2	9.2	11.0	12.6	15.0	17.3	19.7	20.3
finance, insurance, and real estate	1.9	2.3	2.6	3.0	3.6	4.2	5.2	6.0	6.7	6.8
services	5.4	6.2	7.4	9.0	11.5	13.9	17.9	21.9	27.9	31.8

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 1995 (Washington, DC: U.S. Government Printing Office, 1995).

Note: Numbers may not add to 100 due to rounding.

with some college education represented 11.8 percent of the labor force, compared with 21.3 percent in 1991; meanwhile, persons with four years or more of college made up 14.1 percent of the labor force in 1970, compared with 26.7 percent in 1991.

It is evident that educational levels affect employment status. In 1992, 53.4 percent of persons aged 25–64 with less than a high school diploma were employed, compared with 92.3 percent of persons with doctorate degrees.

In 1992, 72.8 percent of high school graduates were employed, compared with 85.7 percent of college graduates.

Despite this trend, there is a growing concern among policymakers and employers that the quality of education received is inadequately preparing individuals for the increasing proportion of positions that require high-tech skills. There is also concern that the rate of change is such that, without a better system of continu-

ing education, skills will not be maintained.

In the future, employers will increasingly be searching for prospective employees with specialized skills and training. According to the U.S. Department of Labor, jobs that do not require postsecondary education or training, such as manual labor or various service industry jobs, will at best grow slowly and may even decline. At the same time, the number of jobs requiring more technical skills will expand.⁴

Where We Work

The changing mix of businesses in the economy has affected where we work. Chart 2 shows the shift from goods producing to service producing employment. Table 7 provides the numbers on this shift and the

⁴ See Michael Anzick, "Demographics and Employment Shifts: Implications for Benefits and Economic Security," EBRI Issue Brief no. 140 (Employee Benefit Research Institute, August 1993).

business categories within the sectors. **Job movement has been heavily toward firms that provide lower total compensation and lower noncash employee benefits than firms in the areas of job decline.**

There has also been an ongoing debate over the distribution of jobs by size of employer. Table 8 presents data on companies by size, showing corporate employees in firms of 1,000 or more employees totaled 35.2 percent of all employees in 1992. Firms with between 0 and 99 employees provide 41 percent of jobs, and 24 percent of jobs are in firms with 100–999 employees. Yet, **98.1 percent of all companies have fewer than 100 employees. Between 1987 and 1992, firms with fewer than 100 employees created 16.9 million new jobs, compared with 5.1 million jobs created by firms with more than 1,000 employees. Since these small firms are less likely to have employee benefit programs, there are implications for future economic security and retirement patterns.** Census data indicate that a total of 43.7 million nonagricultural workers (public and private) worked for organizations with 1,000 or more employees, or a total of 41.3 percent of the nonagricultural work force in both sectors as well as the private nonprofit sector.

Job Tenure

Younger workers are the most job mobile age group, while older workers are less likely to change jobs. Studies indicate that this trend has not changed much over time and that we have been and are a highly job mobile nation.⁵

In 1993, 19 percent of workers had been in the same job for less than one year, 33 percent had

Table 8
Number and Percentage of Companies and Employees, by Company Size, 1987 and 1992

Company Size	Number of Companies	Percentage of Total Companies	Number of Employees	Percentage of Total Employees
1987				
Total	3,878,866	100.0%	68,140,393	100.0%
0–4 ^a	2,231,000	57.5	4,121,168	6.0
5–9	783,793	20.2	5,134,990	7.5
10–19	452,986	11.7	6,046,985	8.9
20–49	269,305	6.9	8,045,751	11.8
50–99	81,914	2.1	5,583,153	8.2
100–249	40,204	1.0	5,985,712	8.8
250–499	10,872	0.3	3,713,449	5.4
500–999	4,590	0.1	3,141,070	4.6
1,000 or More	4,202	0.1	26,368,114	38.7
1992				
Total	4,794,000	100.0	89,269,000	100.0
0–4 ^a	2,764,000	57.7	4,859,000	5.4
5–9	924,000	19.3	6,071,000	6.8
10–19	550,000	11.5	7,387,000	8.3
20–49	345,000	7.2	10,394,000	11.6
50–99	113,000	2.4	7,749,000	8.7
100–249	63,000	1.3	9,429,000	10.6
250–499	18,000	0.4	6,259,000	7.0
500–999	8,000	0.2	5,656,000	6.3
1,000 or More	8,000	0.2	31,465,000	35.2

Source: U.S. Department of Commerce, Bureau of the Census, *1987 Enterprise Statistics: Company Summary* (Washington, DC: U.S. Government Printing Office, 1991); and U.S. Department of Commerce and U.S. Department of Labor, *Fact Finding Report: Commission on the Future of Worker–Management Relations, May 1994* (Washington, DC: U.S. Government Printing Office, 1994).

^aFor companies with zero employees, the companies shown reported annual payroll but did not report any employees on their payroll during specified pay periods.

been at their current job between 1 and 4 years, 20 percent had been at their current job between 5 and 9 years, 17 percent had been at their current job 15 or more years, and 2 percent did not know how long they had been at their current job (table 9). This represented very little change from data collected in 1983.

Between 1983 and 1993, workers aged 16–25 were most likely to have been at their current job for less than one year or between 1 and 4 years (table 9). In 1993, 47 percent of workers aged 16–25 had been at their current job for less than a year, compared with 20 percent, 13 percent, 9 percent, and 7 percent for workers aged 25–34, 35–44, 45–54, and 55 and over, respectively.

In 1991, median job tenure for all workers was 4.5 years, compared with 3.4 years in 1951 (table 10). Median job tenure for men aged 55–64 peaked at

⁵ Francis X. Diebold, David Neumark, and Daniel Polsky, Job Stability in the United States, *NBER Working Paper No. 4859* (Cambridge, MA: National Bureau of Economic Research, 1994); Henry S. Farber, Are Lifetime Jobs in the United States Disappearing? Job Tenure in the United States, 1973–1993, *NBER Working Paper No. 5014* (Cambridge, MA: National Bureau of Economic Research, 1995); Kenneth A. Swinnerton and Howard Wial, “Is Job Stability Declining in the U.S. Economy?” *Industrial and Labor Relations Review* (January 1995): 293–304.

Table 9
**Percentage Distribution of Nonfarm Wage and Salary Workers
 by Years of Tenure at Current Job, by Age,
 May 1983, May 1988, and April 1993**

Age and Year	Total (millions)	Years of Tenure at Current Job					Do not know
		Less than 1 year	1–4 years	5–9 years	10–14 years	15 or more years	
Total							
1983	88.2	19%	34%	18%	11%	15%	2%
1988	101.7	19	33	17	11	16	4
1993	105.8	19	33	20	11	17	2
16–24							
1983	18.0	40	51	7	a	a	1
1988	18.3	43	44	4	a	a	9
1993	16.2	47	46	6	a	a	2
25–34							
1983	26.0	19	42	26	9	1	2
1988	30.8	19	42	23	10	1	4
1993	29.6	20	42	27	8	2	1
35–44							
1983	19.0	13	28	20	18	18	3
1988	24.8	13	29	20	17	18	3
1993	28.7	13	28	23	17	18	2
45–54							
1983	13.6	8	21	18	15	35	4
1988	16.1	10	22	16	13	37	3
1993	19.2	9	22	19	13	35	2
55 and Over							
1983	11.6	7	16	15	15	42	4
1988	11.8	9	18	15	13	42	3
1993	12.1	7	19	17	13	42	2

Source: Employee Benefit Research Institute tabulations of the May 1983, May 1988, and April 1993 Current Population Survey employee benefit supplements.

^aLess than 0.5 percent.

17 years in 1983. With job tenure at 15.5 years in 1991 for this age group, the pattern has remained consistent since 1963. As the baby boom ages, and the proportion of the older population grows, we can expect a growing segment of the labor force to seek to extend job tenure.

Census data provide a picture that can be related to pension entitlement. Table 11 provides data on work force job tenure overall and the pension participation rate in each tenure group. Data indicate that the proportion of the labor force in jobs for more than 15 years is growing. This may be related to the aging of the baby boom generation.

Contingent and Alternative Work Arrangements

The Bureau of Labor Statistics (BLS) undertook a survey in 1995 to assess the status of the American work force.⁶

The survey is the first of its kind and establishes baseline data on the work force.

Under BLS definitions, between 2.739 million workers (2.2 percent of the total labor force) and 6.034 million workers (4.9 percent) are contingent. To oversimplify, these are individuals who do not think their current job will last. Of these totals, between 47 percent and 43 percent are part-time workers. There is little difference by gender; 80 percent are white; they are spread across the age spectrum but are younger than the total labor force. Contingent workers are concentrated in the service industry (54 percent) relative to the total labor force (34.5 percent in services) and in construction (9.8 percent versus 5.5 percent). About one-third of contingent workers prefer that arrangement; two-thirds do not.

Under BLS definitions, 12.156 million workers (9.9 percent) have alternative work arrangements; 30 percent are part-time workers, compared with 18.3 percent of workers with traditional arrangements. Of the total, 8.3 million are independent contractors

⁶ U.S. Department of Labor, Bureau of Labor Statistics, Contingent and Alternative Employment Arrangements, Report 900 (Washington, DC: U.S. Government Printing Office, 1995. To order, call (202) 606-6378).

Table 10
Median Years with Current Employer, by Age and Gender, Selected Years 1951–1991

Gender and Age	1951	1963	1966	1973	1978	1983	1987	1991
Both Sexes	3.4	4.6	4.2	3.9	3.6	4.4	4.2	4.5
14–17	0.7	0.7	0.6	0.7 ^b	a	a	0.5 ^b	a
18–19	0.6	0.5	0.5	0.6	a	a	0.5	a
20–24	1.3	1.1	1.0	1.3	a	a	1.6	a
16–24	a	a	a	a	0.7	1.1	a	1.2
25–34	2.6	3.0	2.7	2.8	2.6	3.3	3.4	3.5
35–44	3.2	6.0	6.0	5.2	5.0	5.8	6.1	6.0
45–54	6.3	9.0	8.8	8.6	8.3	10.3	9.6	10.0
55–64	8.0	11.8	13.0	11.9	11.0	13.6	12.7	12.4
65 and over	10.0+	13.8	13.7	12.6	11.0	13.2	12.4	11.1
Males	3.9	5.7	4.2	4.6	4.5	5.1	5.0	5.1
14–17	0.8	0.7	0.6	0.6 ^b	a	a	0.5 ^b	a
18–19	0.6	0.5	0.5	0.6	a	a	0.5	a
20–24	1.2	1.1	1.0	1.2	a	a	1.7	a
16–24	a	a	a	a	0.7	1.1	a	1.4
25–34	2.8	3.5	2.7	3.2	2.7	3.4	3.7	3.7
35–44	4.5	7.6	6.0	6.7	6.9	7.7	7.6	7.2
45–54	7.6	11.4	8.8	11.5	11.0	13.4	12.3	12.2
55–64	9.3	14.7	13.0	14.5	14.6	17.0	15.7	15.5
65 and over	10.0+	16.6	13.7	13.9	13.5	14.6	15.0	13.1
Females	2.2	3.0	2.8	2.8	2.6	3.3	3.6	3.8
14–17	0.5	0.6	0.6	0.6 ^b	a	a	0.5 ^b	a
18–19	0.6	0.5	0.5	0.6	a	a	0.5	a
20–24	1.4	1.1	1.1	1.2	a	a	1.5	a
16–24	a	a	a	a	0.7	1.1	a	1.1
25–34	1.8	2.0	1.9	2.2	1.6	3.1	3.1	3.2
35–44	3.1	3.6	3.5	3.6	3.6	4.6	4.9	5.0
45–54	4.0	6.1	5.7	5.9	5.9	6.9	7.3	7.3
55–64	4.5	7.8	9.0	8.8	8.5	10.5	10.3	10.4
65 and over	4.9	8.8	11.2	10.9	8.4	11.9	10.8	10.4

Source: Employee Benefit Research Institute compilation: (for years 1951, 1963, 1966, and 1979), U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979); (for years 1973 and 1987), The Wyatt Company, *The Compensation and Benefits File: January 1989*, Vol. 5, no. 1 (Washington, DC: The Wyatt Company, 1989); (for years 1983 and 1991), U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure and Occupational Mobility in the Early 1990s," News release USDL 92-386 (26 June 1992).

^aData not available.

^bThe data represent individuals aged 16–17.

(68.3 percent); 2.078 million are on-call workers and day laborers (17.1 percent); 1.2 million are temporary and help agency workers (9.7 percent); and 0.652 million (5.4 percent) are workers provided by contract firms. While 52.8 percent of all workers are male, 71.5 percent of contract firm workers and 67.3 percent of independent contractors are male. Among independent contractors, 45.6 percent are over age 45 (30.6 percent of traditional workers), and 76.4 percent are over age 35 (58.2 percent of traditional workers). Alternative arrangements are most common in construction and services, relative to the distribution of traditional workers. Among independent contractors, 82.5 percent prefer the alternative arrangement (6.85 million workers), compared with two-thirds of on-call and temporary workers who do not (2 million workers).

Employee benefits provision is a common public

policy issue in nontraditional work force discussions. Among noncontingent workers, 82.2 percent have health insurance (53.9 percent provided by an employer), compared with 82.7 percent of workers with traditional arrangements (57.2 percent provided by an employer). This percentage drops to between 57 percent and 65 percent for contingent workers who have health insurance (employer provided insurance drops to between 8.6 percent and 20.4 percent). Among independent contractors, 72.6 percent have health insurance. This drops to 44.9 percent of temporary help agency workers, among whom 5.7 percent have employment-based insurance.

Looking at each of these populations in terms of the definition of contingent worker (workers who expect the job to end), BLS found that 3.8 percent of independent contractors are contingent; 38.1 percent of on-call

Table 11
Participation in the Labor Force and an Employment-Based Pension Plan, by Job Tenure, 1979, 1983, 1988, and 1993

Job Tenure	1979			1983		
	Number	Percentage	Pension	Number	Percentage	Pension
	of workers	of work force	participation	of workers	of work force	participation
	(thousands)			(thousands)		
Total	85,398	100.0%	49.5%	85,958	100.0%	47.4%
Less than 1 year	20,331	23.8	19.8	16,661	19.4	12.4
1–4 years	26,924	30.9	40.7	30,245	35.2	36.5
5–9 years	15,267	17.9	65.1	15,986	18.6	61.2
10–14 years	8,866	10.3	76.9	9,583	11.1	72.7
15 or more years	12,563	14.7	82.2	13,438	15.6	81.0
		1988			1993	
Total	101,744	100.0	47.7	105,815	100.0	49.3
Less than 1 year	19,478	19.1	14.8	19,643	18.6	10.9
1–4 years	36,888	36.3	38.0	34,345	32.5	35.2
5–9 years	17,140	16.9	64.4	21,167	20.0	60.3
10–14 years	10,944	10.7	74.2	11,380	10.8	72.1
15 or more years	15,884	15.6	81.1	17,552	16.6	80.0

Source: Paul J. Yakoboski, "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current Population Survey," *EBRI Issue Brief* no. 153/*Special Report* SR-25 (Washington, DC: Employee Benefit Research Institute, 1994); and unpublished Employee Benefit Research Institute tabulations of data from the May 1979 and May 1983 Current Population Surveys.

workers and day laborers; 66.5 percent of temporary help agency workers; and 19.8 percent of workers provided by contract firms.

While we do not have historical data points based on the same definitions, these data suggest there are 7.85 million workers (6.37 percent of all workers) who have alternative work arrangements and prefer them, compared with 3.65 million (2.9 percent of all workers) who do not. This is a somewhat different picture than has often found its way into advocacy campaigns of recent years.

Workers' Economic Well-Being

Workers' economic status affects their attitudes toward work and employers and their ability to save for such things as retirement. Many recent reports have assessed the average American worker's wages and real income.

Growth in Gross Domestic Product (GDP) has slowed recently compared with past growth rates. The growth rate of GDP from the late 1970s through the 1980s was slower than that during the preceding period of the early 1950s through the mid-1970s. From 1954 to 1973, the GDP growth rate averaged 2.1 percent, while the average annual growth rate of GDP from 1974 to 1989 was 1.6 percent. Yet when these two time periods are put on a longer historical time line, the data show that the average annual growth rate for GDP in the 1974–1989 period was the same as that for the period 1869–1953 (1.6 percent). The period of 1953–1973 was a

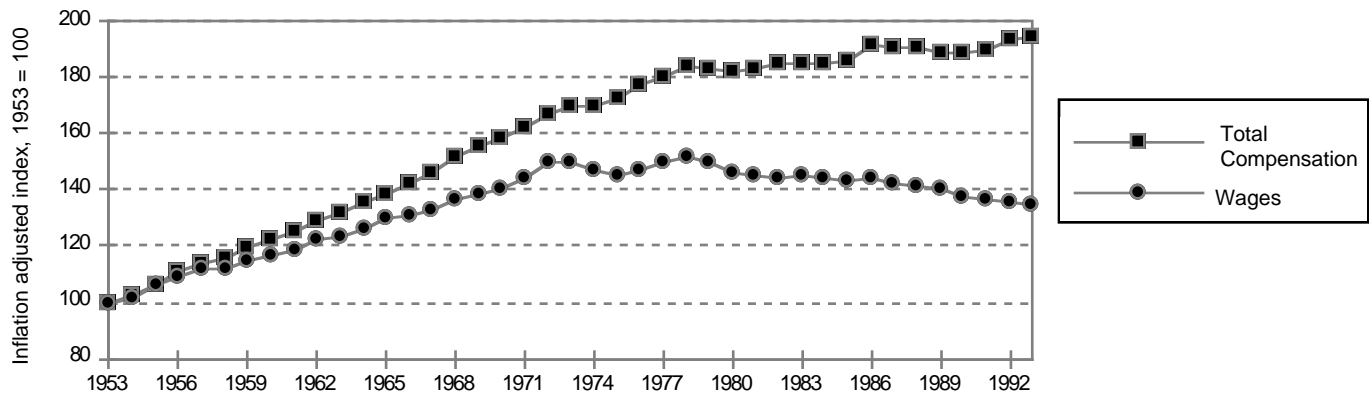
time of unusually strong performance for the American economy due to the great distortions in the world economy brought about by the Great Depression and World War II.

Several measures can be used to determine Americans' economic well-being. Four of the most common are: per capita personal income, median household income, median family income, and average hourly wages. Each of these indicators presents a different picture of Americans' economic well-being. Per capita personal income grew an average of 1.4 percent annually from 1974 to 1993, while average hourly wages declined 0.5 percent annually.⁷

Comparing per household and per family income data over time is very problematic. One reason for this is that the average size of a household and a family has declined. The average size of a household in 1960 was 3.33 persons, declining to 2.62 persons by 1992. In 1960, the average size of a family was 3.67 persons, declining to 3.17 persons by 1992. Also, the dynamics of the family have changed over the years. The number of women entering the work force has increased. In 1960, 37.8 percent of women were in the labor force, increasing to 57.8 percent by 1992. Men and women with similar skill profiles and earnings tend to marry and work, producing a dispersion in the income distribution. The

⁷ W. Michael Cox and Beverly J. Fox, "What's Happening to Americans' Income?" *The Southwest Economy* (Issue 2, 1995): 3–6.

Chart 3
Total Compensation and Hourly Wages, 1953–1993



Source: W. Michael Cox and Beverly J. Fox, "What's Happening to Americans' Income?" *The Southwest Economy* (Issue 2, 1995): 3–6.

number of single-parent households has increased (from 10.7 percent of all households in 1960 to 15.4 percent in 1992), and these households tend to have lower incomes than married-couple households.

A problem with the reporting of wage and salary earnings is that the index does not capture the value of employee benefits (chart 3). Employee benefits are a rapidly growing segment of total compensation. In 1960, noncash benefits accounted for 8.0 percent of total compensation, increasing to 17.8 percent by 1993. Employee benefits are highly valued by employees because of the services to which they provide access and the favorable tax treatment they receive. Because of the favorable tax treatment of employee benefits, each dollar in compensation that goes to employee benefits is worth an average of \$1.30 in wages and salaries. How would the total compensation package, and employee benefits, change if the tax system were changed radically?

Conclusion

popular attention (generated by candidates for public office, present public officials, the media, and others) into context with numbers. The data suggest that the world of work has not changed significantly for the vast majority of Americans. However, it has changed significantly for many of those who have been the biggest winners, in terms of economic security, since World War II.

This Issue Brief has sought to put many points of conventional wisdom and

The Clinton Administration has initiated a reduction of more than 275,000 federal jobs. Many state and local governments, with cutbacks in the nation's capital in high profile, have joined this federal government downsizing trend. The traditional view that a government job was "forever" has been shaken, leading many such employees to feel an increased level of uncertainty; yet public employees are only a slice of the labor force, and most continue to have job stability.

The private sector has always eliminated many jobs, while creating many others, as new inventions have made what were essentials obsolete, as market entry by others brought down prices or sales, or as productivity allowed more to be done with fewer people. Government deregulation of industries has caused some employers to eliminate many jobs (AT&T after the government required breakup in 1983), while the firms that emerged from such actions (MCI, Sprint, McCaw Cellular, etc.) have added many new jobs. These patterns appear to be an inevitable part of development. The President's budget for the United States for fiscal year 1997 reports a 7.9 percent reduction in full-time federal jobs for 1993–1995.

The public and private sectors have experienced more of the job losses of the past 15 years in the white collar and professional ranks, whereas the massive shifts in coal, steel, and autos during the 1950s, 1960s, and 1970s were more heavily concentrated among blue collar workers. When private-sector executives, including those in media organizations and the staff of the White House and the Congress, get pink layoff and termination slips due to downsizing, "job insecurity" receives heightened attention. As the economy functions without restriction and is allowed to adjust quickly to technological, tax,

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competitive, and other changes in the environment, employers will increasingly seek to pay fairly for the work done today in the form of wages and salaries and, for many, health insurance, a 401(k) matching contribution, and other insurance. Fewer employers will feel able to be paternalistic and build health and pension programs that aim to be there until workers reach age 65; however, most workers have never had the benefit of this paternalism in the first place.

The world of work, for most workers, is becoming more similar to what it has always been for those who have worked for small enterprises.⁸ Because most workers are employed by small organizations, the data do not show significant change for the "average" or "median" worker (in other words, point estimates will largely reflect the small employer market), but for some millions change is clearly occurring.⁹ These millions happen to be among the best off economically in our society, and they are not allowing the change to occur

quietly. Many of the affected are among the 17 percent of the work force who have been with their current employer for 15 or more years, who feel that there is a definite change taking place in job security as they face less job stability. Many had planned to remain until retirement. For these long termers who have lost jobs, and for others who fear they may, there is high anxiety. As with many things, a vocal minority is bringing extraordinary attention to the current turbulence. The level of job stability (frequency of job change) that has long been the norm for most Americans may soon be the norm for all but the tenured few.

⁸ Federal Reserve Bank of San Francisco, "Has Job Security in the U.S. Declined?" FRBSF Weekly Letter, No. 96-07, 16 February 1996.

⁹ Henry Farber, Are Lifetime Jobs in the United States Disappearing? Job Tenure in the United States, 1973–1993, *NBER Working Paper No. 5014* (Cambridge, MA: National Bureau of Economic Research, 1995).

Appendix

FRBSF WEEKLY LETTER

Number 96-07, February 16, 1996

Has Job Security in the U.S. Declined?

Yes, according to public perception and a number of articles in newspapers and business magazines. They report that workers increasingly feel that their jobs are at risk. They cite cost-cutting pressures, increased use of temporary or contingent workers, and the need for greater flexibility in response to a more competitive and dynamic economic environment as factors that have frayed the ties that bind workers to firms. Even during the past year, when economic growth has been relatively strong throughout the U.S., wage growth reportedly has been held down by workers' concerns about job security.

In contrast to the popular view, a recent study that attracted media attention (Farber 1995) reports that job security has remained relatively constant since the 1970s. Farber bases this conclusion on the finding that average job duration—the typical length of time that a job lasts—has changed very little. Such results, however, provide limited insight into job security per se. In particular, they are not centered around a reasonable definition of job security that properly distinguishes between employer-initiated and worker-initiated separations.

This *Weekly Letter* presents an analysis of job security based on such a definition. The evidence suggests that the popular view of declining job security may be closer to the truth than results regarding stable job durations suggest.

Economic bases for job security

In order to decide whether job security has changed, it is important to identify the bases for job security. Most U.S. employees are not union members, and therefore their employment conditions are not specified by written contracts. Instead, employment conditions for the bulk of U.S. employees are determined by what economists call “implicit contracts”—unwritten and generally unspoken agreements between firms and workers. Because these agreements are not explicitly binding, they must be “self-enforcing” in order to be sustained. In other words, implicit contracts must possess features—such as mutual gains for involved parties, or “reputation costs” for parties that breach agreements—that minimize violations. An example of mutual gains arises from the turnover costs related to screening, training, and job search activities, that firms and workers encounter as part of the job-matching process. These costs become more significant when workers accumulate skills that are largely confined to specific firms or when a worker's productivity and satisfaction in a given firm or job is revealed only over time. Under these circumstances, the employment relationship constitutes a shared investment between workers and firms, so it is advantageous to both to agree implicitly on wage profiles that minimize separations through sharing of the costs and benefits of the investment. This in turn generates increasing wages and decreasing turnover with seniority.

An example involving “reputation costs” was first posed by Lazear (1979) and it is based on rising wages as a means of eliciting worker effort and loyalty. Wages below productivity early in a worker's tenure, followed by wages that exceed productivity later, constitute a conditional performance bond that encourages workers to work hard and stay at the firm. Under these circumstances, however, firms have an incentive to fire highly paid senior

workers. They are prevented from doing so by “reputation costs”: firms that prematurely fire senior workers will be forced to pay higher wages to attract new workers, as potential recruits learn of the firm’s bad faith and require higher wages to insure against future violations of the implicit employment agreement.

These features of implicit contracts may adequately ensure that firms retain workers under normal economic conditions, thereby producing job security. However, during periods of economic change, the degree of self-enforcement in implicit contracts may be reduced. For example, changing technology may reduce the value of firm-specific or industry-specific skills, thereby inducing firms to discharge senior workers who have made substantial investments in such specialized skills. Also, the reputation costs that enforce Lazear-type implicit contracts may be reduced by economic dislocation, thereby providing firms with the incentive to dismiss senior workers; Idson and Valletta (1996) find evidence consistent with this behavior.

Job stability vs. job security Farber (1995) argues that despite popular perception of declining job security, job stability in the U.S. has remained essentially constant from 1973-1993. He examined data on the duration of jobs and found that although job durations declined over the period for some groups of low-wage males, they increased for females, so that on average they remained approximately constant.

Debate over these results continues. But even if they are correct, results on changes in job stability have limited implications for changes in job security. Suppose that due to sharp shifts in product demand patterns across industries, firms engage in widespread permanent dismissals of workers who believed their jobs were protected against such shifts. By itself, this increase in dismissals will reduce measured job durations. Suppose also, however, that workers who in the past might have quit to search for new jobs observe this signal of labor market weakness and decide to retain their current jobs. Then quit rates fall below what they otherwise would have been, offsetting the increase in dismissals and possibly leading to stable job durations. In this case, even though job durations appear to be stable, job security has declined. This example suggests that data on job durations should not be used to draw inferences about job security.

An alternative view of job security is required. A working definition of job security should describe how safe workers’ jobs are with respect to changes in the economic environment, within or outside the firm. Thus, the real issue regarding changing job security is whether variation in factors external to firms, or firms’ responsiveness to

Figure 1
Changes in Permanent Dismissals

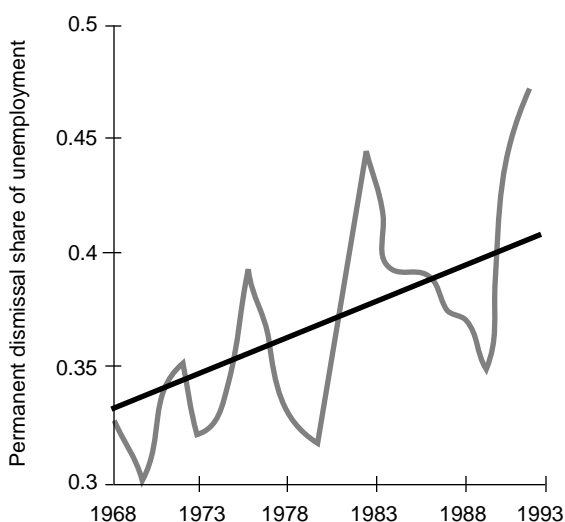
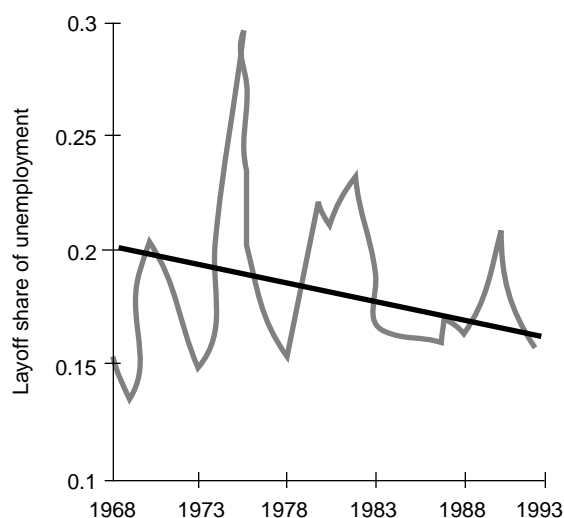


Figure 2
Changes in Layoffs



those factors, have changed so that employees sense that they are increasingly vulnerable to being permanently dismissed by their employers. Either change—changing variation in outside conditions, or greater responsiveness by firms—could be interpreted as decreased “job security.” Greater responsiveness by firms, however, is more interesting, because it indicates that firms’ behavior has changed.

Some additional evidence. In providing a more informative analysis of changing job security as defined here, this study uses data that distinguish between firings by firms and quits by employees. Specifically, I use unemployment data from the Current Population Survey (CPS), which is administered each month to 60,000 households and is the primary source of current U.S. labor market data. The responses of unemployed individuals permit separate identification of those unemployed due to permanent dismissals, temporary or indefinite layoffs (both of which imply an expectation of being recalled to the firm), voluntary quits, and reentrance or new entrance into the labor market.

Data from the March CPS’s for the years 1968–1993 reveal several interesting patterns in the share of unemployment attributable to different causes. Figure 1 shows the share of unemployment attributable to permanent dismissals each year. The light line shows the unadjusted series, which exhibits sharp changes over the business cycle—i.e., the amount of unemployment attributable to permanent dismissals changes disproportionately with the unemployment rate. The solid line shows the series after the cyclical and random components are removed. This line reveals a substantial upward time trend over the period. In other words, conditional on the unemployment rate, the share of unemployment attributable to permanent dismissals increased steadily from 1968–1993; this increase is statistically significant.

Although this result may arise because unemployment durations for dismissed workers have increased, similar analyses of layoff unemployment reveal that the increased dismissal share has been accompanied by a decrease in the layoff share of unemployment. This is shown in Figure 2, which is identical to Figure 1, except with layoffs replacing permanent dismissals. This figure shows a downward trend in the layoff share of unemployment, albeit one that is less pronounced than that for permanent dismissals. A similar analysis reveals no significant time trend in the share of unemployment attributable to quits. Instead, the increasing share of permanent dismissal unemployment is balanced by decreasing shares of layoff and labor market entrant unemployment. Although these results are not entirely consistent with the story in which increasing permanent dismissals are matched by decreasing quits, they indicate that in making their employment adjustment decisions, employers are increasingly substituting permanent dismissals for layoffs.

Further analysis of the data reveals an interesting difference between the pre-1980 and post-1980 periods. In particular, the responsiveness of the dismissal share to the unemployment rate—i.e., the cyclical variation in the dismissal share—is substantially larger in the later period than in the earlier period. This suggests that in making their permanent dismissal decisions, employers have become more responsive to macroeconomic conditions over time. In conjunction with the upward trend in the share of unemployment attributable to permanent dismissals, these results suggest an expanding role of permanent dismissals in firms’ employment adjustment process, particularly during the period 1980–1993.

Conclusion

Although a recent study finds that average U.S. job duration been largely constant over the past 20 years, such results provide little insight into changes in job security. In particular, results on job durations ignore the distinction between employer- and worker-initiated separations and the economic bases for long-term attachments between workers and firms. The analysis in this *Weekly Letter* indicates that despite stable job durations, the share of unemployment attributable to permanent dismissals and the cyclical responsiveness of permanent dismissals have increased. This in turn suggests the increased importance of permanent dismissals in firms’ employment adjustment process. Perceptions of decreased job security may relate to these trends, particularly if the burden of increased dismissals is falling disproportionately on classes of workers who had significant job security in the past.

A more complete analysis of the incidence of permanent dismissals across different categories of workers and how it depends on outside economic conditions, remains to be performed. Popular perceptions of declining job security may arise from increased variation in relevant economic variables (due for example to accelerated technological change or defense cuts), or from increased employer responses to those variables. The increased cyclical responsiveness of the dismissal share suggests the latter explanation. Additional work along these lines may help to resolve the apparent conflict between general perceptions of decreased job security and research findings of stable job durations.

—Robert G. Valletta, Economist

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Issue Brief

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