

Debunking the Retirement Policy Myth: Lifetime Jobs Never Existed for Most Workers

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- The “lifetime job” has never existed for *most* workers, a fact first documented in the early 1980s by Robert Hall, who reported that only about one-third of workers ages 55 and older in 1978 had been in the same job for 20 years or more. He further estimated that about 40 percent of workers in their 40s and 50s were in jobs that would eventually last this long. In 1996, only 28 percent of workers ages 55 and older had been on their job 20 years or more.
- Over recent years, 1983–1996, median tenure among male workers dropped noticeably, but this decrease was concentrated among prime-age male workers. Despite this decline, tenure in 1996 was comparable with that of decades past. Tenure levels for female workers have risen consistently over time. Thus, the labor market has not experienced *radical* change over recent years with regard to job stability. A good deal of job churning has always occurred in the U.S. economy.
- Other research indicates that job security (as opposed to job stability) has decreased over recent years, although not to the extent that many would believe. In addition, this decrease in job security has been largely concentrated among workers who have been immune to such phenomena in the past—those who are older, more educated, highly skilled, white collar, and have higher earnings.
- One can argue that, given the emergence of vehicles such as 401(k) plans and hybrid plans, retirement plans today match the reality of the work experience for most Americans better than at any time in the past. However, job turnover and changes in job stability still raise issues for retirement income security, and vesting of accrued benefits and preservation of vested benefits for retirement remain the crux of these issues.
- While 86 percent of retirement plan participants are vested, the numbers are smaller for those with short tenure. Lawmakers have recently proposed shorter vesting schedules for 401(k) plans. Such a change should mean more retirement dollars for more workers, but the additional dollars gained by individual workers would likely be small in many cases.
- Preservation of vested accumulations for retirement remains an issue for job changers. While over three-quarters of the dollars distributed are preserved via rollover, most distributions do not result in a rollover (60 percent result in a cashout). The lack of preservation of small accounts indicates that many workers do not realize what these dollars could translate into at retirement if saved. The importance of preservation of seemingly small balances is emphasized by the fact that individuals may receive a number of these “small” distributions over the course of a career as they change jobs.

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Introduction

Decreasing job security and the disappearance of lifetime jobs have been the subject of much discussion and

handwringing over recent years. Headlines trumpet instances of corporate downsizing as evidence that the good ole' days of job stability are a thing of the past. Workers now face a cold new world where the good job they have today may be gone tomorrow, or so we are led to believe. Such changes in the labor market could have obvious implications for the employer-employee relationship: workers may have less interest in their employers' long-term goals, and employers may have less incentive to invest in their workers. Such changes, if they are occurring, could also have dramatic implications for American workers and their families' retirement income security.

But, the first question that must be addressed is whether the anecdotal evidence presented in today's headlines is truly representative of what has been and is actually happening in the economy. This is an area to which economists have devoted a fair amount of research in recent years. Unfortunately, extensive analysis has not led to simple black and white answers. As is typically the case, the truth seems to lie somewhere in the gray middle ground—yes, jobs have become less secure for many in recent years; however, we never did live in an idyllic world of lifetime jobs with near-total security. Furthermore, job stability (as distinct from job security) has not changed much over time.

This *Issue Brief* analyzes recent data and synthesizes other research to present a complete picture of what is known about changes in job stability and job security. It then analyzes implications for retirement income security, in particular focusing on the issues of benefit vesting and preservation.

Tenure Patterns

This section discusses trends in median¹ tenure with current employers among all wage and salary

workers ages 20 and older. The data presented are Employee Benefit Research Institute (EBRI) compilations of U.S. Department of Labor, Bureau of Labor Statistics' (BLS) tabulations of the periodic tenure supplements of the Current Population Survey.² Tenure measures the length of a current employment relationship.

Males

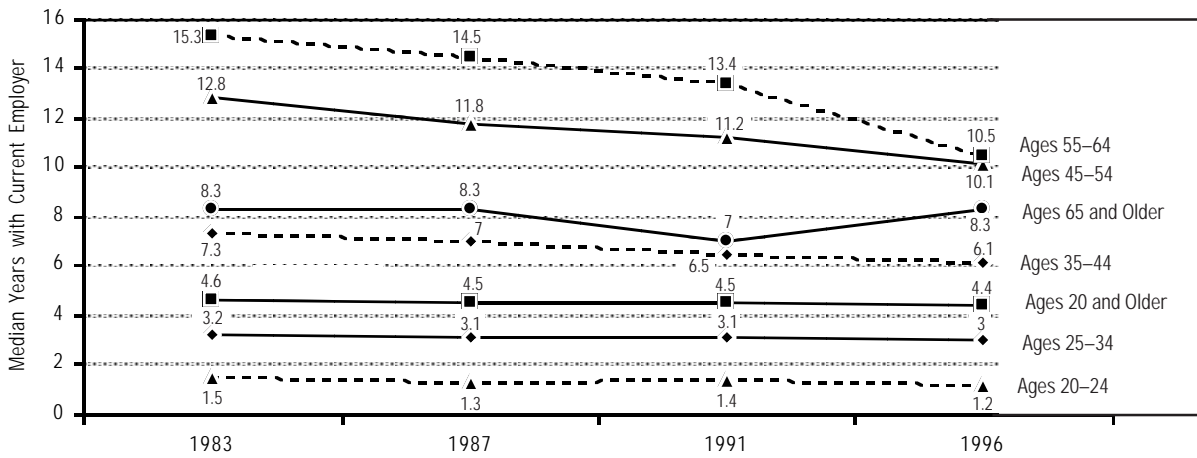
Chart 1 shows median tenure figures for male wage and salary workers over the period 1983–1996. First, note that in the aggregate, the median tenure of male workers is basically unchanged; it stood at 4.6 years in 1983 and 4.4 years in 1996. Next, note that median tenure has dropped dramatically over the 13-year interval for males ages 55–64 (by almost 5 years) and for males ages 45–54 (by almost 3 years) and less dramatically for males ages 35–44 (by 1.2 years). What are we to make of the fact that tenure for prime-age males has decreased over this period while it remained essentially unchanged for all males in the aggregate?

Decreases in median tenure among workers in their 50s and early 60s could be the result of these workers increasingly moving into a “retirement” that involves a new job and/or a new career (see Quinn (1997), Mutchler et al. (1997), Fronstin (1997), and Ruhm (1991)). This would serve to lower tenure figures among this age group over time. In addition, it could also be the result of the oldest workers with the greatest tenure becoming increasingly likely to leave the work force completely. Both reasons mentioned may be driven

¹ The median is defined as the value above and below which lie an equal number of population elements.

² Special thanks to Jay Meisenheimer of the BLS for providing the tabulations.

Chart 1
Median Tenure Among All Male Wage and Salary Workers, Ages 20 and Older, 1983-1996



Source: Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

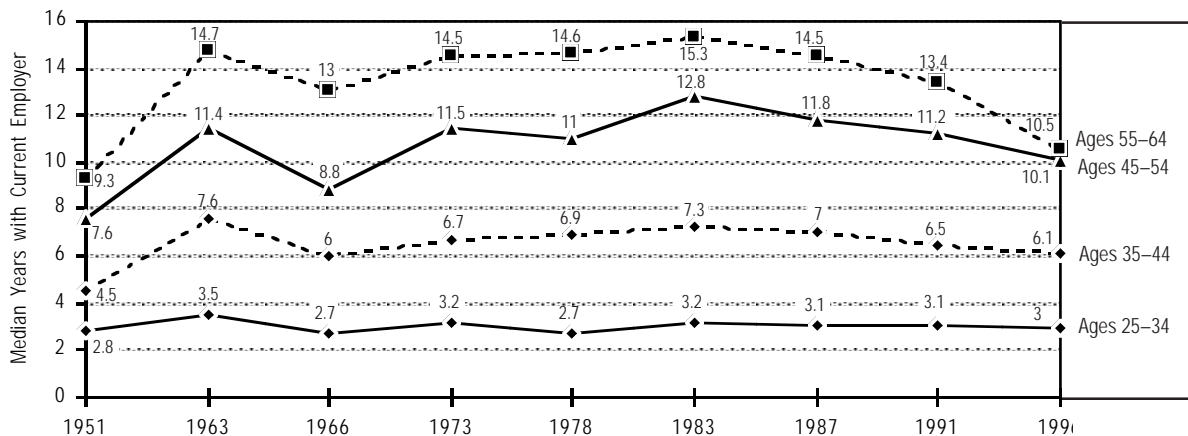
by the targeting of attractive buyouts and/or early retirement packages to older workers with greater tenure during corporate downsizing. Even if these workers are not “targeted,” they may be more likely than others to accept such offers.

While tenure levels for older male workers have decreased during recent history, it should also be noted that the disappearance of lifetime jobs is largely a myth—these jobs never existed for most workers. Median tenure for workers ages 45–54 was generally in the range of 11 to 11.5 years in the 1960s and the 1970s

(chart 2). Median tenure for workers ages 55–64 was generally in the range of 14.5 years over the same time period.³ Therefore, today’s tenure levels for males are comparable with historical levels for past decades despite

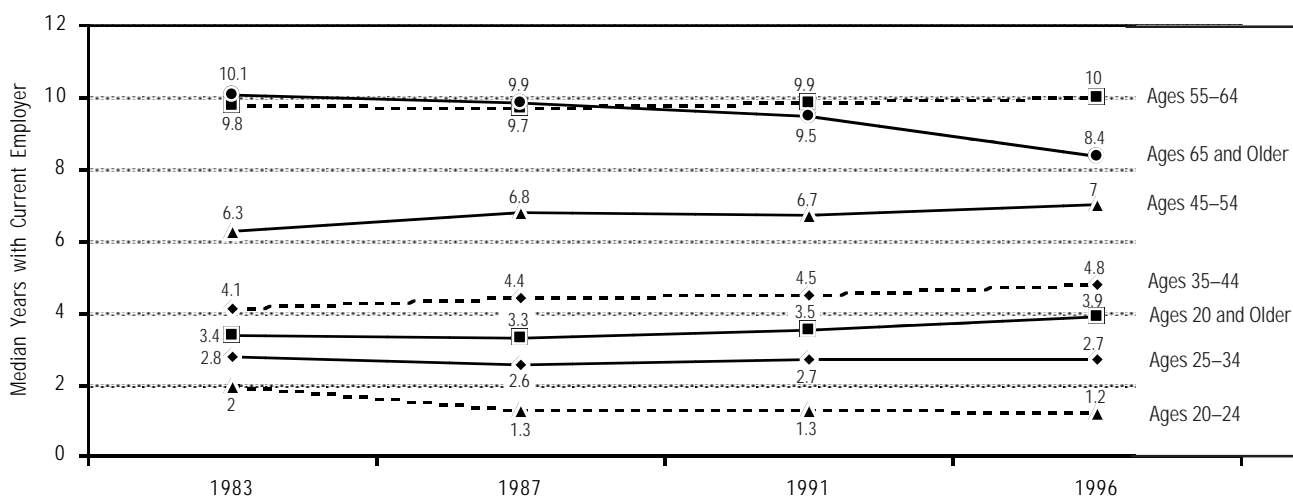
³ Note that survey question wording was changed in 1983. Prior to 1983, the question was phrased, “When did ... start working at your/his/her present job?” The response was coded as a calendar year, and if that year was the one that immediately preceded the survey year, the specific month was also coded. Starting in 1983, BLS changed the question to ask, “How long have/has ... been working continuously for your/his/her present employer?” The response was coded as the number of years, or if less than one year, the number of months.

Chart 2
Prime Age Male Tenure Trends, by Worker Age, 1951-1996



Source: Employee Benefit Research Institute (EBRI) compilation: (for years 1951, 1963, 1966, 1973, and 1978), U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979); (for 1983, 1987, 1991, and 1996), EBRI compilation of data from U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics.

Chart 3
 Median Tenure Among All Female Wage and Salary Workers, Ages 20 and Older, 1983–1996



Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

decreases over the past 13 years.⁴ This indicates that a fair amount of job churning in the labor market has always existed, and that increased churning among males over the past decade or so is not without historical precedent. However, the phenomenon of decreasing tenure levels over such an extended period of time for a large segment of the labor force is without precedent.

To summarize, median tenure among middle-age and older male workers fell over the period 1983–1996, signaling decreased job stability and even possibly decreased job security among this group. This does not mean, however, the end of lifetime jobs that existed in decades past—such jobs never existed to the degree commonly believed. One can argue, in fact, that a fair amount of job churning has always existed (although the nature of the churn—voluntary versus involuntary job turnover—may have changed back and forth over the years). Finally, while there is relative stability in tenure figures for younger males, we should be careful not to automatically equate this with no change in job security; this may or may not be true. We will return to this issue later.

Females

Female tenure generally trended upward over the period 1983–1996. For female wage and salary workers ages 20 and older, median tenure was 3.9 years in 1996, compared with 3.4 years in 1983 (chart 3). Female workers under age 25 and those age 65 and older were the only groups to experience a decrease in tenure over this time period. Tenure increased for females ages 35–44, and remained steady for those ages 25–34 and those

ages 55–64.

These trends are likely the result of the continuing integration of females into the “male” work place, i.e., females are moving into jobs where tenure levels may be decreasing over time; however, these are “better” jobs with longer tenure than females in a similar age group held a decade ago. Therefore, the possibility arises that women with uninterrupted work force participation have become less likely to change employers. In addition, more female workers have become “career oriented” and less likely to leave the work force for family reasons. These developments would explain the increase in prime age female tenure in the face of market forces that are leading to decreases in tenure among males in the same age groups.

These recent trends continue a long-term pattern of increased tenure with current employer among female workers (chart 4). Female tenure levels during the 1980s and 1990s compare very favorably with those of earlier decades, when tenure levels were stable but at lower levels.⁵

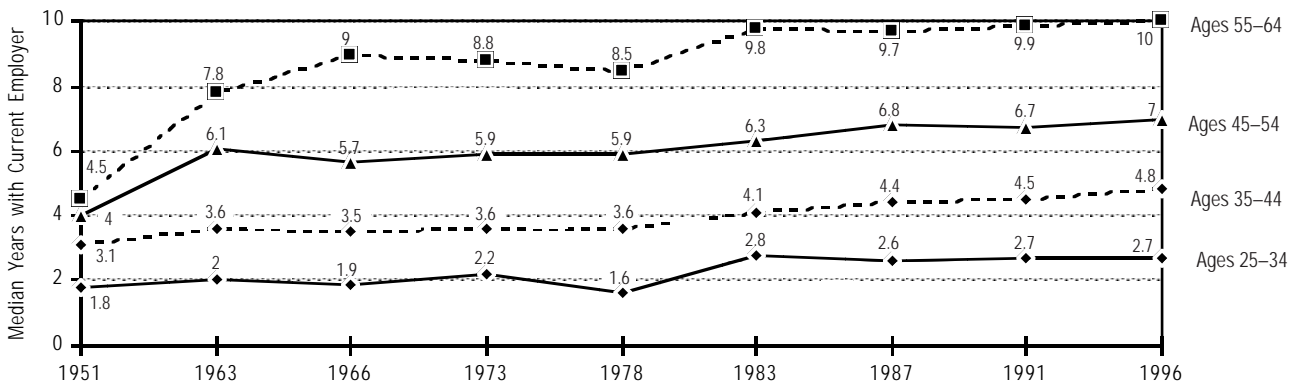
Tenure Distributions

Examination of the distribution of tenure with current employer over time reveals several things. First, a

⁴ In addition to the question change implemented in 1983 that is noted in footnote 3, the algorithm for calculating medians is different for the 1951–1981 period than it is for the 1983–1996 period. The result is that medians for the 1951–1981 period are systematically about 0.5 years higher than they would have been if they had been calculated using the same algorithm as the 1983–1996 period.

⁵ See footnote 3 and footnote 4.

Chart 4
Prime Age Female Tenure Trends, by Worker Age, 1951–1996



Source: Employee Benefit Research Institute compilation: (for years 1951, 1963, 1966, 1973, and 1978), U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979); (for 1983, 1987, 1991, and 1996), EBRI compilation of data from U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics.

significant percentage of the work force has been in their current job for a very short period of time (2 years or less) consistently over the years (table 1). Over the period 1983–1996, the fraction of all wage and salary workers with 2 years or less of tenure with current employer hovered in the 36–39 percent range. In 1996, 37.9 million wage and salary workers (out of 104.5 million) had been in their current job for 2 years or less.

Second, at any given point in time the fraction of workers who have held their current job for a very long period of time (20 or more years) is relatively small. Over the period 1983–1996, the fraction of all wage and salary workers with 20 or more years of tenure with their current employer consistently hovered around 10 percent. In 1996, 9.9 million workers had been with their current employer for 20 years or more.

Third, in the aggregate there has been relatively little change in the distribution of tenure with current employer over recent history. During the period 1983–1996, the percentage of workers with 2 years or less of tenure declined by 0.8 percentage points. At the other end of the spectrum, the percentage of workers with 20 or more years of tenure increased by 0.6 percentage points, and those with 10–19 years of tenure decreased by 0.4 percentage points. Between 1983–1996, the number of wage and salary workers ages 20 and older increased from 79.8 million to 104.5 million (an increase of 31 percent). Over this same period, the number of workers employed with their current employer for 2 years or less increased 27 percent, from 29.5 million to 37.6 million. In addition, the number of workers employed with their current employer for 20 years or more increased by 39 percent, from 7.1 million to 9.9 million.

Among male workers, there has been little change in the percentage of workers at each end of the spectrum (table 1). The percentage of male wage and salary workers with 2 years or less of tenure increased by 0.4 percentage points, while the percentage with 20 or more years of tenure decreased by 0.8 percentage points (in addition, there was a 1.8 percentage point decrease in those with 10 to 19 years of tenure). In terms of absolute numbers, of the 43.0 million men in the work force in 1983, 14.7 million had tenure of 2 years or less, and 5.3 million had tenure of 20 years or more. In 1996, of the 54.4 million men in the work force (an increase of 27 percent), 18.9 million had tenure of 2 years or less (an increase of 29 percent), and 6.3 million had tenure of 20 years or more (an increase of 19 percent).

When examining tenure by age groups, the decrease in the fraction of male workers at long-term jobs has been most dramatic among older workers (table 2). The fraction of those ages 55–64 with 20 or more years of tenure decreased 7.3 percentage points, from 41.7 percent to 34.4 percent; the percentage with 10–19 years of tenure decreased 4.9 percentage points, from 24.3 percent to 19.4 percent. The fraction of those ages 45–54 with 20 or more years of tenure decreased 3.4 percentage points, from 32.6 percent to 29.2 percent; the percentage with 10–19 years of tenure decreased 4.1 percentage points from 27.4 percent to 23.3 percent. Among those ages 35–44, the percentage with 10–19 years of tenure decreased 7.8 percentage points. In each of these age groups, there was also an increase in the percentage with tenure of 2 years or less.

Among female workers, those with very short tenure (2 years or less) dropped by 2.4 percentage points, while those with tenure of 20 years or more (plus a

Table 1
Tenure Distribution Among All Wage and Salary Workers, Ages 20 and Older, 1983-1996

	Total (1,000's)	1 Year or Less	1 Year- 2 Years	3 Years- 4 Years	5 Years- 6 Years	10 Years- 19 Years	20 or More Years
		(percentage)					
All Workers							
1996	104,531	23.1%	13.1%	15.8%	20.9%	17.6%	9.5%
1991	96,682	26.0	11.4	15.8	18.5	18.9	9.4
1987	90,786	27.4	11.7	14.5	20.1	17.9	8.5
1983	79,819	25.7	11.3	16.6	19.5	18.0	8.9
Percentage Point Change		-2.6	1.8	-0.8	1.4	-0.4	0.6
Males							
1996	54,359	22.3	12.5	15.6	20.1	17.9	11.6
1991	50,800	23.9	10.7	15.3	18.4	19.6	12.1
1987	48,528	25.1	11.0	13.8	19.6	18.7	11.6
1983	43,034	24.0	10.4	15.0	18.5	19.7	12.4
Percentage Point Change		-1.7	2.1	0.6	1.6	-1.8	-0.8
Females							
1996	50,172	24.1	13.7	16.0	21.6	17.4	7.2
1991	45,882	28.1	12.2	16.4	18.7	18.2	6.5
1987	42,258	29.9	12.5	15.2	20.5	17.0	4.9
1983	36,785	27.8	12.4	18.4	20.7	15.9	4.9
Percentage Point Change		-3.7	1.3	-2.4	0.9	1.5	2.3

Source: Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

Table 2
Tenure Distribution Among All Male Wage and Salary Workers, Prime Age Groups, 1983-1996

	Total (1,000's)	1 Year or Less	1 Year- 2 Years	3 Years- 4 Years	5 Years- 6 Years	10 Years- 19 Years	20 or More Years
		(percentage)					
Ages 25-34							
1996	15,779	28.2%	15.8%	20.8%	25.3%	9.8%	a
1991	16,226	28.8	13.7	20.3	23.5	13.6	a
1987	15,977	29.2	14.1	18.4	26.9	11.3	a
1983	13,709	28.3	13.3	21.1	26.3	11.1	a
Percentage Point Change		-0.1	2.5	-0.3	-1.0	-1.3	a
Ages 35-44							
1996	15,756	16.3	10.8	14.0	23.1	28.7	7%
1991	13,946	17.3	8.9	12.9	20.2	32.5	8.0
1987	12,144	18.3	8.7	11.2	20.9	33.8	7.0
1983	9,715	17.8	7.6	12.3	19.0	36.5	6.7
Percentage Point Change		-1.5	3.2	1.7	4.1	-7.8	0.3
Ages 45-54							
1996	10,712	11.8	7.2	10.7	17.7	23.3	29.2
1991	8,590	13.9	5.1	10.3	15.0	22.9	32.9
1987	7,663	13.6	6.0	9.0	15.5	24.1	31.8
1983	7,156	11.8	5.3	8.4	14.7	27.4	32.6
Percentage Point Change		0	1.9	2.3	3.0	-4.1	-3.4
Ages 55-64							
1996	4,846	10.3	8.3	10.6	17.0	19.4	34.4
1991	4,937	11.7	5.8	9.3	13.6	20.5	39.2
1987	5,192	10.7	5.2	8.4	14.2	21.9	39.5
1983	5,062	9.9	4.5	7.3	12.4	24.3	41.7
Percentage Point Change		0.4	3.8	3.3	4.6	-4.9	-7.3

Source: Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

^aNot applicable.

Table 3
Tenure Distribution Among All Female Wage and Salary Workers, Prime Age Groups, 1983–1996

	Total (1,000's)	1 Year or Less	1 Year– 2 Years	3 Years– 4 Years	5 Years– 6 Years	10 Years– 19 Years	20 or More Years
(percentage)							
Ages 25–34							
1996	13,695	30.9%	17.2%	19.7%	24.1%	8.1%	a
1991	13,887	33.2	15.0	20.0	20.8	11.0	a
1987	13,314	34.1	14.6	18.6	23.8	8.8	a
1983	11,425	32.6	13.7	22.2	23.2	8.3	a
Percentage point change		-1.7	3.5	-2.5	0.9	-0.2	a
Ages 35–44							
1996	14,561	19.6	12.5	15.9	25.4	22.2	4.4
1991	12,905	23.2	11.0	16.1	20.7	24.1	4.9
1987	10,833	24.8	10.5	15.2	23.9	23.0	2.6
1983	8,371	24.4	11.0	18.0	24.2	20.0	2.4
Percentage point change		-4.8	1.5	-2.1	1.2	2.2	2.0
Ages 45–54							
1996	10,617	14.1	8.8	13.5	22.4	26.1	15.2
1991	8,054	16.8	8.6	13.0	20.6	27.5	13.5
1987	6,736	17.4	8.8	11.5	22.9	28.8	10.4
1983	5,836	15.3	8.4	14.6	24	27.9	9.7
Percentage point change		-1.2	0.4	-1.1	-1.6	-1.8	5.5
Ages 55–64							
1996	4,551	11	6.3	11.3	19.1	29.3	23.0
1991	4,173	12.5	7.0	11.2	17.3	28.2	23.9
1987	4,213	12.2	6.1	10.1	20.1	31.1	20.3
1983	4,159	10.5	6.2	10.9	20.9	32.1	19.6
Percentage point change		0.5	0.1	0.4	-1.8	-2.8	3.4

Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

^aNot applicable.

1.5 percentage point increase in those with 10–19 years of tenure) increased by 2.3 percentage points (table 1). In terms of absolute numbers, of the 36.8 million women in the work force in 1983, 14.8 million had tenure of 2 years or less, and 1.8 million had tenure of 20 years or more. In 1996, of the 50.2 million women in the work force (an increase of 36 percent), 19.0 million had tenure of 2 years or less (an increase of 28 percent), and 3.6 million had tenure of 20 years or more (an increase of 100 percent).

Among female workers, the 45–54 age group experienced the largest increase in workers with very long tenure; the percentage with 20 or more years of tenure rose 5.5 percentage points, from 9.7 percent in 1983 to 15.2 percent in 1996 (table 3). The 35–44 age group experienced the largest decrease in workers with very short tenure—the percentage with 2 years or less of tenure fell 3.3 percentage points, from 35.4 percent in 1983 to 32.1 percent in 1996.

Industry and Occupation

Workers were classified into 11 industry categories. Four industry groups displayed relative job stability (defined

here as a change in either direction of 0.3 years or less) over the period 1983–1996—durable manufacturing, nondurable manufacturing, wholesale trade, and retail trade (table 4). As discussed above, this does not mean that one should assume that jobs in these sectors have remained stable in terms of security. Only one industry group displayed decreased job stability in terms of median tenure over this time period—transportation and public utilities.

The remaining six industry groups displayed increases in median tenure among workers over the 1983–1996 period. In general, the increases were in the neighborhood of one year. Does this mean jobs are becoming more secure in these sectors? Again, maybe or maybe not. A given sector may have experienced many layoffs, but if they were concentrated among short-tenure workers who subsequently left the sector, then median tenure in that sector would increase. It seems unlikely, however, that this could occur in all of these sectors. If laid-off workers went to another sector, then tenure levels would drop in that second sector, but we observe a notable tenure decrease in only one sector. In addition, we know from earlier analysis that tenure

Table 4
Median Tenure Among All Wage and Salary Workers, Ages 20 and Older, by Industry, 1983–1996

	1983	1987	1991	1996	Percentage Point Change
	(years)				
Agriculture	2.7	2.8	2.8	3.7	1.0
Government	6.0	6.7	6.7	7.1	1.1
Mining	3.5	6.2	6.1	6.2	2.7
Construction	2.3	2.3	2.8	3.0	0.7
Manufacturing—Durables	5.8	6.2	6.0	5.5	-0.3
Manufacturing—Nondurables	5.3	5.2	4.9	5.6	0.3
Transportation and Public Utilities	6.1	5.9	6.0	5.4	-0.7
Wholesale Trade	4.1	4.0	3.6	4.2	0.1
Retail Trade	2.5	2.4	2.5	2.6	0.1
Finance, Insurance, Real Estate	3.3	3.1	3.5	4.2	0.9
Services	2.7	2.7	2.9	3.2	0.5

Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

decreases are concentrated among older male workers, the type of workers who tend to have greater tenure. If these workers left an industry, the tenure levels would thus tend to fall, not rise as we are observing.

How does tenure vary with age across industry groups? Based on Employee Benefit Research Institute (EBRI) tabulations, median tenure varies very little across industries among relatively young workers, but the variation does increase for older workers (table 5). For example, the lowest median tenure among workers ages 25–34 was 2 years in the services sector and in the retail trade sector, and the highest median tenure was 4 years in mining and in nondurable manufacturing. By comparison, for workers ages 45–54, the lowest median tenure was 4 years in the construction sector and in retail trade, while the highest tenure was 15 years in the mining sector.

Table 5
Median Tenure Among All Wage and Salary Workers, Ages 20 and Older, by Industry and Age, 1996

	Ages 25–34	Ages 35–44	Ages 45–54	Ages 55–64
	(years)			
Agriculture	3	5	5	15
Government	3	7	12	15
Mining	4	7	15	14
Construction	3	3	4	6
Manufacturing-Durables	3	7	12	16
Manufacturing-Nondurables	4	7	11	15
Transportation and Public Utilities	3	8	12	13
Wholesale Trade	3	5	6	11
Retail Trade	2	4	4	6
Finance, Insurance, Real Estate	3	5	7	8
Services	2	4	5	8

Source: Employee Benefit Research Institute tabulations of the February 1996 Current Population Survey Displaced Worker, Job Tenure, and Occupational Mobility Supplement.

When tenure levels are examined by occupation group over the period 1983–1996, relatively little decrease in job stability occurs (chart 5). Operators, fabricators, and laborers is the only occupation group to experience a decrease in tenure over this period, from 4.5 years to 3.6 years (chart 5). Tenure levels remained constant or increased slightly among managerial and professional occupations; technical, sales and administrative support occupations; service occupations; and precision production, craft and repair occupations. Farming, forestry, and fishing experienced an increase in median tenure of over 1 year during this period.

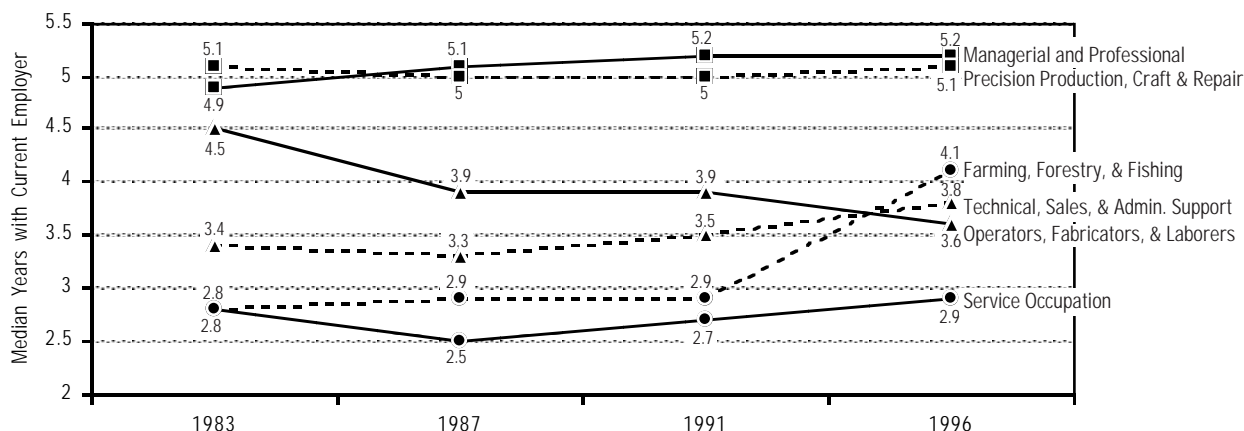
Full Time versus Part Time

Analysis of tenure trends among full-time versus part-time workers reveals very little change (chart 6). Median tenure among full-time workers has edged upward from 4.3 years in 1983 to 4.7 years in 1996, while tenure among part-time workers has basically remained unchanged (falling from 2.5 years to 2.3 years). This signals increasing job stability for full-time workers in the aggregate over the past 13 years, despite decreasing tenure among prime age males, who are likely to be full-time workers.

Stability Vs. Security

Despite the widespread media attention given to corporate downsizings and restructuring, the results above demonstrate that in the aggregate, tenure with current employer in the United States has been steady over the period 1983–1996. In addition, the data demonstrate that decreases in tenure with current

Chart 5
Median Tenure Among All Wage and Salary Workers, Ages 20 and Older, by Occupation, 1983–1996



Employee Benefit Research Institute compilation of U.S. Bureau of Labor Statistics data.

employer have occurred but are concentrated among certain groups, primarily prime age males. Thus, we can conclude from these figures that the United States has experienced relative job stability over the recent past.

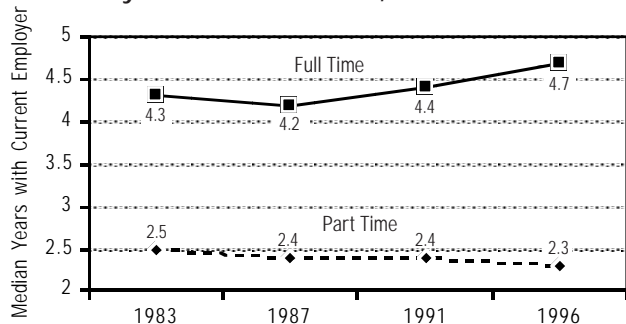
But does job stability mean that Americans' jobs are as secure as ever? Not necessarily. Job stability and job security do not have the same meaning and consequently do not have to move in the same direction. Job stability depends on both voluntary job turnover and involuntary job turnover. Job security is strictly a function of involuntary job turnover (i.e., "What are the chances of losing my job?"). Tenure with current employer is thus a natural measure of job stability as it depends on both voluntary and involuntary turnover, but for this reason it is a flawed indicator of job security. It is nonetheless informative to examine tenure trends, as long as their limitations are clearly understood. They are

a pure indicator of job stability but a less than ideal indicator of job security.

Of particular interest here is the possibility that job security has decreased while job stability has remained unchanged. For example, it is possible that aggregate turnover rates have remained unchanged over time, and therefore tenure has remained unchanged but the reason for the turnover has changed. In the past, most worker turnover was voluntary, e.g. a worker left an employer for a better opportunity elsewhere. Today, it could be mostly involuntary, in the form of employers letting workers go. This is an example of tenure (and job stability) remaining unchanged but jobs obviously becoming less secure.

Various studies have attempted to examine the issue of job security directly. (These studies are discussed in detail in Appendix I along with other analyses of job stability.) This research indicates that job security (as opposed to job stability) has decreased over recent years, although not to the extent that many would believe. In addition, this security decrease has been concentrated among certain groups of workers—older, more educated, highly skilled, white collar, higher earning.

Chart 6
Median Tenure Among All Wage and Salary Workers, Ages 20 and Older, by Work-Time Status, 1983–1996

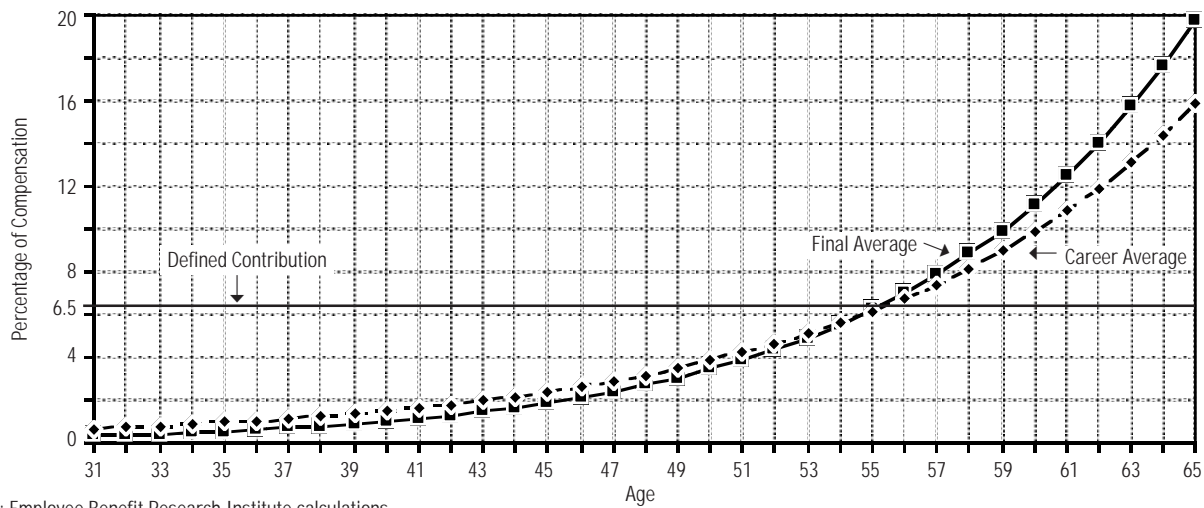


Source: Employee Benefit Research Institute tabulations.

Implications

Retirement benefit accumulations are tied to work. Traditional defined benefit (DB) pensions are based on a formula that ties the benefit to earnings and length of service such that an individual will accrue a set

Chart 7
Annual Marginal Retirement Benefit Accumulations



Source: Employee Benefit Research Institute calculations.

percentage of pay per each year of service. Pay may be based on average annual earnings over the entire time of employment (career average plan), or it may be the average earnings over the final years of service, say, 3 or 5 years (final pay plan).⁶ For example, if 2 percent of pay were earned for each year of service, then a 30-year worker would receive an annual annuity equal to 60 percent of pay in retirement. If average earnings were \$50,000, this translates into \$30,000. If length of service were 5 years instead of 30 years, then the \$50,000 worker would receive \$5,000 annually in retirement. Chart 7 demonstrates the additional benefit (as a percentage of compensation) accrued during each year of service under a final average DB plan and a career average DB plan.⁷ The defining characteristic of marginal benefit accruals under a DB plan is that these accruals are backloaded to latter years of service due to the fact that the ultimate benefits earned are a function of years of service as well as earnings.⁸ Thus, tenure matters.

Chart 7 also demonstrates the advantage of a generic defined contribution (DC) plan⁹ over a DB plan for a worker who will not spend his or her career with

the sponsoring employer. Strictly in terms of benefit accrual, a short-service worker will come out ahead under a DC plan (of equivalent generosity) under which a fixed percentage of pay is contributed to the worker's account because marginal benefit accruals are equal for each year of service. Whether the worker will have more income in retirement depends on whether the benefits earned and vested are preserved for retirement. Issues of benefit vesting and benefit preservation are examined in this section. Chart 7 in combination with table 5 demonstrate how differences in tenure by age across sectors of the economy will result in different numbers of winners and losers once job change is factored into the different retirement plans offered across employers.

What are the implications of actual tenure patterns for retirement income policy and retirement plan design? Early public policy and plan design were often based on delivery of benefits to lifetime workers. Thus, traditional DB plans provided retirement income security quite effectively for only a fraction of the population, since lifetime jobs were never widespread. Traditional DB plans were never going to be an effective means of ensuring retirement income security for *most* workers. This recognition led to many of the vesting and participation requirements of the Employee Retirement Income Security Act (ERISA) of 1974, whose goal was meaningful retirement benefits for noncareer workers.

Plan design and public policy have evolved over time. Vesting requirements, as noted, were instituted with ERISA and have become more stringent over time. The Revenue Act of 1978 codified 401(k) cash or deferred arrangements (CODAs) into law. The DC plan market has experienced dramatic growth over time, spearheaded by 401(k) plans. Such plans are offered as complements

⁶ Another type of DB plan is the flat benefit plan, which pays a flat dollar amount for each year of service recognized under the plan.

⁷ One percent of pay is earned for each year of service under the final average plan, and 2.5 percent of pay is earned for each year of service under the career average plan.

⁸ Marginal accruals are more backloaded under a final average plan than under a career average plan. The reason is that pay under a final average plan is defined as that over the last few years of service, which, assuming wage growth over the course of a career, will exceed average pay over an entire career by increasing amounts as years of service increase.

⁹ This assumes annual contribution of 6.5 percent of pay.

As of 1993, 86 percent of plan participants were vested, an increase of 95 percent since the passage of ERISA in 1974.

to DB plans among large plan sponsors¹⁰ and as primary retirement vehicles among smaller companies and those just instituting a plan. Benefit portability on job change and the potential for workers to fully preserve benefits are key features of DC plans. Hybrid plans have emerged combining features of DB and DC plans, including the portability features of DC plans. It can be argued that retirement plans today match the reality of the work experience for most Americans better than at any time in history. But job turnover and changes in job stability still raise issues for retirement income security, and vesting of accrued benefits and individuals' preservation of vested benefits for retirement remain the crux of these issues.

Benefit Vesting

Current law requires a plan to adopt vesting¹¹ standards for the employee's benefit (the balance under a DC plan or the accrued benefit under a DB plan) at least as liberal as one of the following two schedules: full vesting (100 percent) after 5 years of service (with no vesting prior to that time, known as cliff vesting), or graded (gradual) vesting of 20 percent after 3 years of service and an additional 20 percent after each subsequent year of service until 100 percent vesting is reached at the end of 7 years of service.¹² Benefits attributable to employee contributions to either DC or DB plans and investment

income earned on employee contributions to DC plans are immediately vested.

Vesting rates (the fraction of plan participants who are vested) have been rising steadily over time. In 1965, 12 percent of plan participants were vested. In 1975, the year after ERISA was passed, 44 percent of plan participants were vested.¹³ As of 1993, 86 percent of plan participants were vested, an increase of 95 percent since the passage of ERISA in 1974. This increase can be attributed to both the maturation of the employment-based retirement plan system and stricter vesting requirements that have been legislated over time.¹⁴

While 86 percent of retirement plan participants are vested, the numbers are smaller for those with short tenure. Fifty-nine percent of participants with less than 1 year of tenure are vested, and 74 percent of those with 1 to 4 years of tenure are vested. Concern over workers changing jobs before becoming fully vested in a retirement plan prompted President Clinton to propose, in his 1998 budget, faster vesting requirements of employer matching contributions in 401(k) plans. Under the president's proposal, all employees would be fully vested in their employer's matching contributions after 3 years of service, 6 years if vesting were graded. On March 19, Rep. Earl Pomeroy (D-ND) introduced the Retirement Account Portability (RAP) Act of 1998 (HR 3503). The RAP Act would impose faster vesting of employer matching contributions, similar to the president's

¹⁰ The relative balance between the two will depend on the objectives of the sponsoring employer. Companies with an objective of hiring and retaining longer-term employees may put greater emphasis on the generosity of the DB plan, and make lower, or no, matching contributions to the 401(k) plan. Such an objective can be achieved with a 401(k) only, but it requires careful plan design, ongoing monitoring of accumulations, and adjustments of company contributions as needed over time (see Rich (1997)). If the objective is shared responsibility with the employee for retirement income and/or meaningful benefits for short-service, as well as long-term, employees, then greater emphasis may be placed on the 401(k) plan (or the sponsor may consider a hybrid plan).

¹¹ Vesting means that a plan participant has attained nonforfeitable and nonrevocable rights to pension benefits after satisfying specific service (or years of participation) or age and service requirements. Once vested, an employee's rights generally cannot be revoked.

¹² Multiemployer plans, which cover the workers of two or more unrelated companies under a collective bargaining agreement, currently may use a 10-year cliff vesting schedule. However, effective for plan years beginning on or after the earlier of (1) January 1, 1997, or expiration of the collective bargaining agreement under which the plan is maintained, whichever is later, or (2) January 1, 1999, multiemployer plans will be subject to the same vesting rules as other qualified plans.

¹³ Source: Employee Benefit Research Institute, *Preliminary Analysis of Alternative Vesting Requirements* (Washington, DC: Employee Benefit Research Institute, 1980).

¹⁴ Prior to the passage of ERISA, there were no regulations relating specifically to vesting. ERISA established three standards that effectively required plans either to fully vest participants after 10 years of service or to partially vest participants prior to 10 years of service, with full vesting occurring after no more than 15 years. These vesting requirements have become stricter with legislative changes over time.

Table 6
Marginal Benefits from 3 Year 401(k) Vesting
 (assumes a 50% employer match and 8% return)

Earnings	Worker Contribution Rate		
	3%	4%	6%
\$20,000	\$ 974	\$1,299	\$1,948
\$30,000	1,461	1,948	2,922
\$50,000	2,435	3,246	4,870

Source: Employee Benefit Research Institute calculations.

proposal.

The objective of shorter vesting is to achieve more retirement income for more plan participants. To the extent that the costs of these benefits are not offset by reductions in overall retirement benefits, income from retirement plans would rise; however, it would not necessarily rise unless individuals preserve lump-sum distributions (see discussion below).

What would such a change mean for workers? Among all workers ages 20 and older in 1996, 48 percent had tenure of 5 years or more and would thus be vested in an employment-based retirement plan *if covered* under a plan with 5-year cliff vesting. If the maximum allowable time frame for a cliff were 3 years instead of 5 years, then 64 percent of workers would meet these criteria (an increase of 33 percent). Thirty-seven percent of workers had tenure of 7 years or more and would thus be fully vested in an employment-based retirement plan *if covered* under a plan with 7-year graded vesting. If the maximum allowable time frame for graded vesting were 6 years instead of 7 years, 42 percent of workers would meet these criteria (an increase of 14 percent).

Not all workers, however, are covered by a retirement plan, or specifically, a 401(k) plan. Among current 401(k) plan participants, 69 percent have 5 years or more of tenure on their current job.¹⁵ Eighty-five percent of participants have 3 years or more of tenure. Therefore, if the president's proposal became law, the upper bound on the increase in the number of 401(k) participants who would be vested under a cliff scheme as a direct result would be 24 percent. Similarly, with graded vesting, if the president's proposal became law, the upper bound on the increase in vested participants would be 11 percent (55 percent of current participants have 7 or more years of tenure, compared with 61 percent who have 6 or more years of current tenure).

From a policy perspective, two additional outcomes relating to stricter vesting requirements for 401(k) plans must also be considered. First, while more workers would receive benefits from vested employer matching contributions, for newly vested workers the

gain may be relatively small. Workers are immediately vested in their contributions and earnings on those contributions, so the only gain would be from employer matching contributions. Therefore, a plan participant who changed jobs after 3 years of service would leave with more retirement money, but the marginal gain might be small, depending on salary, worker contribution levels, and the amount the employer matches. Table 6 demonstrates potential marginal gains under 3-year vesting for a worker leaving a 401(k) plan after 3 years of participation (assuming a 50 percent employer match).¹⁶ In addition, such benefits are likely to be distributed in the form of a lump-sum distribution on job change, and there is a high probability that such small distributions would not be rolled over and preserved for retirement (see discussion below). Therefore, in the end, the positive impact on retirement income might not be what some envision.

Second, stricter vesting may mean increased administrative costs for plan sponsors. Such cost increases would vary among plan sponsors according to their work force characteristics. Sponsors with high worker turnover rates would experience a greater increase in costs due to the administrative expenses associated with accounting for the additional number of relatively small vested accounts. Increased plan costs might lead to decreases in plan generosity and decreases in employers' propensity to sponsor or start a plan. To the extent that such outcomes occur, they would reduce the positive effects of shortened vesting requirements on retirement income levels.

¹⁵ This is based on EBRI tabulations of the April 1993 Current Population Survey employee benefits supplement. Note that the actual vesting rate among participants in any type of retirement plan with 5 years or more of tenure is 91 percent. This is likely explained by some participants being in plans with graded vesting and others participating in multiemployer plans, which can take up to 10 years to vest under a cliff scheme.

¹⁶ Because a plan may not allow a worker to participate until he or she has been employed for one year, many participants would gain only 2 years worth of employer matching funds rather than 3 years worth. It has not been proposed, but 3-year vesting for DB plans would be essentially worthless given the accrual patterns demonstrated for DB plans in chart 7.

Research indicates that the level of retirement benefit preservation is low among many segments of the working population despite the fact that preservation rates have been increasing over time.

Benefit Preservation

On job termination, workers often have access to the vested funds in their employment-based retirement plans.

DC plans, the most common of which are 401(k) plans, feature individual worker accounts. The worker is entitled to his or her vested account balance on job change. In addition, an increasing number of DB plans are also offering lump-sum options. These funds can either be preserved for retirement by being kept in a tax-qualified retirement savings vehicle or they can be leaked out of the retirement system and used for non-tax qualified purposes. Preservation can be achieved by leaving the money in the former employer's plan, if that is allowed, or by "rolling" the account balance over into an IRA or a new employer's plan.¹⁷ If the account balance is not preserved, it is received as current income and then can be saved on a non-tax-qualified basis and/or spent. Various legislative proposals have been advanced to further enhance retirement benefit portability.¹⁸

Research indicates that the level of retirement benefit preservation is low among many segments of the working population despite the fact that preservation rates have been increasing over time. According to EBRI analysis of Hewitt Associates' data, 40 percent of distributions to job changers in 1996 were rolled over, up from 35 percent in 1993. Rollover percentages are higher when examined by the dollars distributed, reflecting the

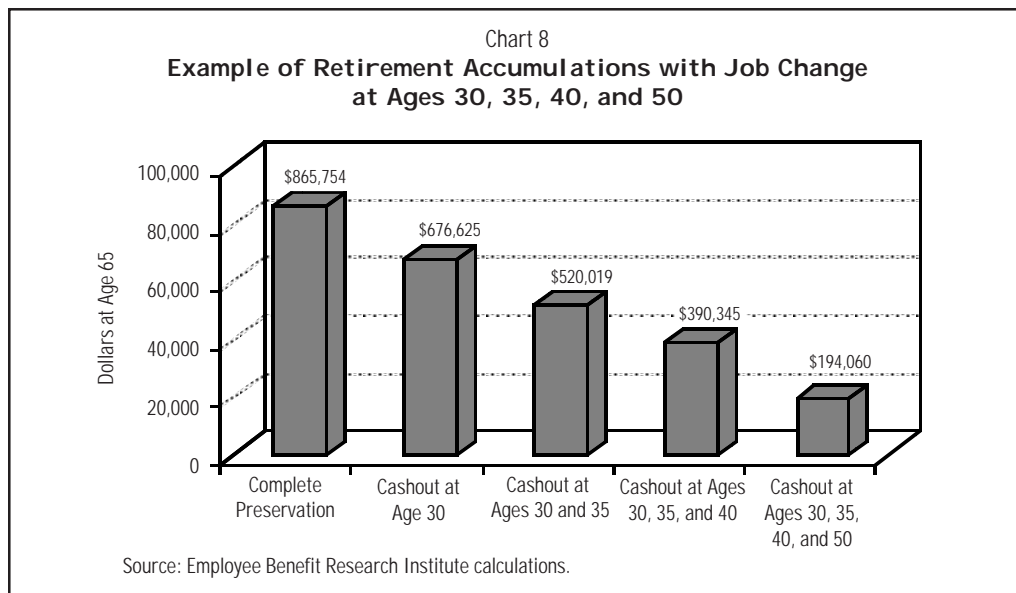
fact that larger distributions are more likely to be preserved. Seventy-nine percent of all dollars distributed in 1996 were rolled over, compared with 73 percent in 1993. In 1996, 20

percent of distributions of less than \$3,500 were rolled over, compared with 95 percent of distributions larger than \$100,000. The likelihood of rollover is also positively correlated with recipient age. Twenty-six percent of distributions to job changers in their 20s were rolled over in 1996, compared with over 50 percent for those ages 50 and older. However, examination of cashout propensities by age and amount combined indicates that it is the size of the distribution and not age that drives behavior. The correlation between age and cashout is merely the result of the tendency of older workers to have larger vested account balances, and larger balances are more likely to be preserved for retirement.

While over three-quarters of the dollars distributed are preserved via rollover, the data indicate areas of concern. Most distributions do not result in a rollover; 60 percent resulted in a cashout. From a financial planning perspective, even relatively small sums of money can compound into nontrivial contributions to a retirement nest egg over a period of decades. Furthermore, the importance of preservation of seemingly small balances is enhanced by the fact that individuals may receive a number of these "small" distributions over the course of a career as they change jobs. Consider the following hypothetical example.

¹⁷ The tax code seeks to encourage benefit preservation. Any amounts not preserved in a tax-qualified vehicle may be subject to a 10 percent penalty tax in addition to regular income tax. Furthermore, since 1993, all employers have been required to offer departing plan participants the option of directly transferring their vested account balances to an IRA or a new employer's plan (if the new employer's plan accepts rollovers). If workers do not utilize the direct transfer option and instead choose to receive the distribution, 20 percent is withheld toward taxes that may be owed on the distribution. The worker still has 60 days from receipt to roll over the entire amount of the account and avoid any taxes.

¹⁸ The most recent of these proposals is the Retirement Account Portability (RAP) Act of Rep. Earl Pomeroy (D-ND). Among other things, the RAP Act would allow employees to roll over funds from their 401(k) plans, 457 plans, and 403(b) plans into IRAs or into the retirement plan of a new employer on job change. However, RAP would not require that employers accept rollovers from their new employees. Under current law, funds cannot be rolled over among 401(k), 457, and 403(b) plans. In addition, under current law, funds cannot be rolled over from a 457 plan into an IRA. RAP also would allow individuals to roll over their after-tax contributions to their new employer's plan or to an IRA as long as the plan or IRA provider agreed to track and report the after-tax portion of the rollover for the individual.



An individual, age 25 and earning \$25,000, begins saving for retirement by contributing 5 percent of pay to a 401(k) plan (in addition, the employer matches 50 percent of every dollar contributed by the employee). If this individual stayed with the same employer to age 65 and contributed 5 percent of earnings each year (earnings are assumed to grow at an 8 percent annual rate), then at age 65 he or she would have approximately \$866,000 in his or her 401(k) account.¹⁹ This amount would buy an annuity of \$92,000 per year payable monthly for life,²⁰ thus replacing 77 percent of the worker's final salary of \$120,000.

Now suppose this individual changes jobs at ages 30, 35, 40, and 50. Suppose that each job offers an equivalent 401(k) plan (similar investment options and a 50 percent match) in which the individual is immediately eligible to participate, and he or she continues to contribute 5 percent of earnings. Since each job lasts at least 5 years, the individual is fully vested, assuming a cliff vesting schedule, in all employer contributions plus earnings on those contributions in addition to his or her own contributions and earnings on those at the time of each job change. Suppose that vested 401(k) account balances are completely preserved for retirement (via rollover to an IRA or to the new employer's plan, or by leaving the money in the former employer's plan) and continue to be invested such that they earn 8 percent annually. This individual would still have retirement savings of \$866,000 at age 65. From a wealth accumulation perspective, this scenario results in retirement savings that are the same as if the worker had never changed jobs.

What happens, however, if not every distribution is preserved for retirement? After 5 years, the worker in

our example has a vested account balance of about \$12,000. Suppose he or she cashes out this amount when changing jobs at age 30. Then, assuming the same savings behavior and full preservation on future job changes, this individual would have \$676,625 at age 65, or \$189,129 less than if that initial cashout at age 30 had been preserved for retirement (a difference of 22 percent). The annuity purchased by this amount would be \$71,900. This clearly demonstrates the high cost of cashing out a "modest" 401(k) accumulation on job change relatively early in a career.

Suppose that cashout occurs after the first two jobs. The individual cashes out both the vested account balances of \$12,000 at the first job and \$14,400 at the second job, and therefore the individual starts saving for retirement all over again at age 35. Assuming the same saving behavior and full preservation until retirement, he or she would have \$520,000 at age 65. This is \$346,000 less than amount accumulated with preservation of those first two distributions, a difference of 40 percent. Chart 8 demonstrates the full range of potential accumulations at age 65 in this example.

What if this individual's career path is a bit more "complex," while his or her saving behavior is the same as described above (and all jobs have the "same" 401(k) plan)? Suppose the individual holds three jobs between ages 25 and 35 (2 for 3 years and the third for 4 years), two jobs between ages 35 and 45 (each for 5 years), one job between ages 45 and 55, and one more

¹⁹ This assumes an 8 percent annual rate of return on investments in the plan.

²⁰ This assumes that \$9.41 buys annuity of \$1/year payable monthly (McGill, 1996).

A worker covered under a series of DB plans without a lump-sum option will suffer a loss in final retirement income as a result of changing jobs over the course of a career.

between ages 55 and 65.²¹ In this case, with complete preservation, the individual would have \$750,500 at age 65. This differs from the scenario described above because, assuming

5-year cliff vesting, the individual will not vest in employer matching contributions at the first three jobs.

How does preservation, or lack thereof, of the “small” vested accumulations at the first three jobs impact final retirement wealth accumulations? If the \$4,200 in which the worker is vested at the first job is not rolled over, then at age 65 he or she will have \$672,000 accumulated—a decrease of \$78,500 (or 10 percent). If the \$4,200 in which the worker is vested at the first job and the \$4,740 vested from the second job are not rolled over, then at age 65 he or she will have \$602,000 accumulated—a decrease of \$149,000 (or 20 percent). Finally, if the \$4,200 in which the worker is vested at the first job, the vested \$4,740 from the second job, and the vested \$7,500 from the third job are not rolled over, then at age 65 he or she will have \$520,000 accumulated—a decrease of \$230,000 (or 31 percent). This example again highlights the potential for serious retirement income erosion if, on job change, “small” vested account balances are cashed out instead of preserved for retirement. In this case, the marginal loss in retirement savings at age 65 is 10 percent for each of the three cashouts that could occur between age 25 and age 35.

Benefit Accruals under DB Plans

While lump-sum distribution options are becoming more common with DB plans, many DB plans do not offer them. A worker covered under a series of DB plans without a lump-sum option will suffer a loss in final retirement income as a result of changing jobs over the course of a career. This is because vested DB accruals are frozen in nominal terms at the time of job change, yet the individual does not begin to receive these benefits until reaching retirement age, which in some cases could

be decades away. Therefore, the frozen nominal benefit is devalued by inflation over time. Depending on tenure patterns, earnings over time, the rate of benefit accrual, and

inflation, the losses resulting from job change in such instances can be substantial.

EBRI demonstrated the potential for such benefit erosion under DB plans in some of its earliest work on pension portability (Andrews, 1987). Benefit accruals were simulated for four hypothetical workers, all of whom began accruing benefits at age 25 and worked until age 65, under four different DB plans.²² Each worker was analyzed according to two scenarios. In the first, each remains with the same employer for 40 years. In the second, each holds four jobs that last 5 years, 10 years, 10 years, and 15 years, respectively. Each worker remains covered under the “same” DB plan as he or she changes jobs. Retirement benefits at age 65 were found to be over 40 percent lower under the job-change scenario, compared with the single-job scenario, for three of the four workers.²³

Suppose that these workers had the option of

²¹ In 1996, the median tenure for worker ages 25–34 was 2.6 years; for workers ages 35–44, it was 5.3 years; for workers ages 45–54, it was 8.3 years; and for those ages 55–64, it was 10.2 years.

²² A female worker earning \$11,000 at age 25 and covered by a career average DB plan that pays 0.94 percent of career average salary per year of service for earnings below the Social Security wage base and 1.63 percent per year for earnings in excess of the wage base. A female worker earning \$24,000 at age 25 and covered by a final earnings based formula that pays a benefit equal to 1.47 percent per year of service where average salary is based on the last 5 years of earnings. A male worker earning \$17,000 at age 25 and covered by a flat benefit plan where benefits are equal to \$190.08 per year for each year of service; the benefit amount per year of service is assumed to be adjusted upward annually at the same rate as nominal earnings. A male worker earning \$30,000 at age 25 and covered under a benefit formula that pays 1.79 percent of final average salary per year of service where average salary is based on earnings for the last 5 years.

²³ The exception being the worker covered under the career average plan where benefit levels depend on earnings over the entire work history with an employer, as opposed to a final pay plan in which benefits depend on salary during the last few years of employment.

receiving a distribution of their vested benefit accrual at the time of job change, and that these distributions were rolled over and preserved for retirement. Under a job change scenario, would they be better or worse off compared with leaving the funds in the plan? The outcome would depend on the investment returns earned by the distributions rolled over relative to the interest rate used to cash out the future value of vested benefits from the DB plan of each worker. The hypothetical examples show that a 5 percentage point difference in the return for investment earnings above the plan's cash-out rate could increase the value of pension benefits by an average of approximately 40 percent, compared with the value of benefits received if the funds remained in the plan. Yet, from a retirement income policy perspective, the best retirement outcome would still result if the funds were left in the plan as opposed to being taken as a lump sum, cashed out, and used for immediate consumption instead of being preserved for retirement.

Plan Evolution

We raised the possibility earlier in this report that retirement plans today match the reality of the work experience for most Americans better than at any time in the past. Hybrid plans are one key way that retirement plans are evolving to better meet both plan sponsors' and workers' needs. Hybrid plans combine features of DB plans and DC plans into a single plan. The hybrid plan can be either a DB plan or a DC plan. The most common DB hybrid is a cash balance plan. The most common DC hybrid is the age-weighted profit-sharing plan.

A hybrid plan can be structured so as to provide more substantial benefit accrual at earlier ages and/or during earlier years of service, and thus provide a meaningful benefit even if the worker does not spend a

career with the sponsoring employer. Vested benefits are portable via lump-sum distributions. Therefore, while young mobile workers can accumulate meaningful benefits under a hybrid arrangement, preservation of these benefits until retirement remains an issue.²⁴

Bank of America was the first employer to adopt a cash balance plan in the mid-1980s, when it converted its final-average DB pension. The bank believed that a less traditional plan would be the best vehicle to satisfy its needs. One of the key reasons for the change was low employee appreciation and understanding of the DB plan. But, the other key issue was the fact that the former plan was deemed inadequate for the company's mid-career employees (those who would work 20 years for the organization, then leave). Bank of America was looking for a plan design that would provide more meaningful benefits for a younger and more mobile work force (those who left Bank of America and then may or may not return at a later date). The solution was the cash balance plan adopted on July 1, 1985.²⁵

Nonqualified deferred compensation is often used to reward top executives. Nonqualified plans are common, and have become an increasingly important element of executive compensation. Such plans are not for rank-and-file workers. An employer may choose to adopt such a plan for various reasons. Some of these reasons include: to compensate for benefits lost under the employer's qualified plan as a result of benefit and compensation limits; to make up for benefits forfeited when an executive left his or her previous job; to provide a disincentive for an executive to leave by providing additional retirement benefits; and to protect executives in the event of merger, acquisition, or hostile takeover.²⁶ As this list indicates, the provision of nonqualified plan benefits for top executives often emerges directly or indirectly from issues associated with job turnover and mobility.

²⁴ For a thorough examination of hybrid retirement plans, see Campbell (1996).

²⁵ For additional discussion of hybrid plans and the Bank of America experience, see Laabs (1995).

²⁶ For a complete discussion of nonqualified plans, see Fowler, et al. (1998).

Conclusion

Has the labor market experienced *radical* change over recent years with regard to job stability and job

security? No. What has changed and to what degree? Over the period 1983–1996, median tenure among male workers dropped noticeably. Furthermore, this tenure decrease was concentrated among prime-age male workers, particularly those ages 45–54. Despite the decline since the early 1980s, tenure figures in 1996 were comparable with those of decades past. The fact is that there has always been a good deal of job churning in our economy. The “lifetime job” has never existed for most workers. Tenure levels for female workers have risen consistently over time, and now stand at historic highs. This can likely be attributed to the ongoing integration of females into the traditionally “male” work place.

Do these findings mean that reports of decreasing job security in light of highly publicized corporate layoffs are wrong? Not exactly. Other research indicates that job security (as opposed to job stability) has decreased over recent years, although not to the extent that many would believe. In addition, this decrease in job security has been largely concentrated among workers who have been immune to such phenomena in the past—those who are older, more educated, highly skilled, white collar, and have higher earnings. This change in the characteristics of those who have been impacted by changes in job security may help account for heightened media and public concern.

From a policy perspective, given tenure patterns of yesterday and today, one can argue that retirement plans today match the reality of the work experience for most Americans better than at any time in the past. However, job turnover and changes in job stability still raise issues for retirement income security, and vesting of accrued benefits and preservation of vested benefits by

individuals for retirement remain the crux of these issues. As the job churning that has always occurred in American labor markets works its way into all sectors of the economy, most notably the white-collar jobs of very large employers, a clearer picture is emerging of the need for American workers to personally plan for their retirement income security.

Shorter vesting schedules have recently been proposed for 401(k) plans. Such a change should mean more retirement dollars for more workers, but the additional dollars gained by individual workers would likely be small in many cases. Preservation of vested accumulations for retirement remains an issue for job changers, particularly for young workers with seemingly small account balances. The lack of preservation of small accounts indicates that many workers do not realize what these dollars could translate into at retirement if saved. Given that Americans continue to work in an environment of job churning, issues of portability and benefit preservation will remain key for plan sponsors, service providers, and policymakers.

Appendix I

Previous Research on Job Stability

Previous research utilizing

the tenure supplement of the Current Population Survey generally provides results that are complementary to those presented in the main text of this *Issue Brief*. Diebold, Neumark and Polsky (1994) examine the evolution of job retention rates²⁷ in U.S. labor markets. Specifically, they focus on whether job stability has changed over time, and if so, which groups have been affected. They find that job retention rates remained stable in the 1980s. (They estimate the 4-year retention

²⁷ A *t*-year retention rate gives the probability that workers with a particular level of tenure today will have an additional *t*-years of tenure *t* years hence.

rate decreases from 0.53 for 1983–1987 to 0.51 for 1987–1991.) They do note that retention rates declined somewhat for high school dropouts and high school graduates relative to college graduates, and for blacks relative to whites. They also found a decrease in retention rates in the service sector and among blue-collar workers. The authors also find that, if anything, longer term job stability increased slightly, with 10-year retention rates increasing from 0.26 for 1973–1983 to 0.27 for 1981–1991. The authors conclude that “taken as a whole, the evidence to date certainly does not point toward a secular decline in job stability.”

On the other hand, Swinnerton and Wial (1995) use the same data and also estimate 4-year retention rates, and reach exactly the opposite conclusion that secular job stability declined during the 1980s. They present 4-year rates for the periods 1979–1983, 1983–1987, and 1987–1991. They find that the 4-year retention rates fell from 0.547 for 1983–1987 to 0.488 for 1987–1991; and that the drop in retention rates fell across all tenure and age groupings of workers. They did find that retention rates increased over this time period among more senior female workers, those with 14–32 years of tenure at their current job. The authors also find that retention rates fell across broad industry and occupational groupings. They conclude that job stability decreased during the 1980s.

Following a published exchange between the authors of the conflicting studies discussed above regarding the differences in their findings, Swinnerton and Wial revised their original findings. The difference in estimated retention rates was cut in half after Swinnerton and Wial decreased the magnitude their estimate of retention rate decreases in light of a coding error found in their original work. Swinnerton and Wial also conclude after these changes that there may have been an *increase* in 4-year retention rates between 1979–1983 and 1987–1991.

Farber (1995) examines job durations using Current Population Survey (CPS) tenure supplements spanning selected years from 1973–1993 to determine

whether there has been a systematic change in the likelihood of long-term employment. Specifically, he examines changes in the distribution of job durations and finds no evidence to support the view that long-term jobs are becoming less common in the United States. He concludes that overall distribution of job duration has not systematically changed over time. However, he does find that long-term jobs are now allocated somewhat differently across the population—they have become more scarce for the least educated (i.e., those with a high school degree or less), particularly men, and there has been a dramatic increase in the probability of long-term employment for women, especially those with at least a high school degree.

Rose (1995) used a different data set, the Panel Study of Income Dynamics (PSID), to compare employment stability in the period 1980–1989 with the period 1970–1979 among prime-age (ages 24–48 at the beginning of each 10-year period) male workers.²⁸ The same workers are examined every year for the 10-year period, and each year it is determined whether they have changed employers.²⁹ The author then counts the number of years out of the 10 in which there was a change of employer. Having at most 1 year with a job change is labeled strong stability; having 2 or 3 years in which the respondent changed employers is labeled medium stability; and having 4 or more years with an employer change is labeled weak stability. The author finds that, while 67 percent of prime-age men experienced strong stability in the 1970s, only 52 percent experienced strong stability in the 1980s. Correspondingly, the fraction with weak stability increased from 12 percent in the 1970s to 24 percent in the 1980s. This decrease in strong job attachment was found across all age groups and education levels and for whites as well as blacks. Data do not allow for a similar analysis of prime

²⁸ PSID data for the 1970s did not permit a similar comparison to be done for all working women.

²⁹ A positive answer to the question—Did you have another main employer during the previous 12 months?

age female workers, but the author concludes, based on other evidence, that female job stability increased between the 1970s and 1980s.

Neumark, Polsky, and Hansen (1997) combined information from the 1995 CPS Contingent Worker Supplement with earlier CPS tenure supplements to update their previous work on job stability. They find evidence of modest declines in job stability during the first half of the 1990s. This differed from the experience of the 1980s, during which they found constant job stability in the aggregate. However, these aggregate changes mask sharp declines in stability for workers with more than a few years of tenure, in particular, workers with 9 or more years of tenure. These changes were offset by gains in stability for low-tenure workers, in particular those with 2 years or less of tenure. They find that these patterns are similar for males and females. However, the authors strongly caution that there are no data to support a conclusion that these are long-term trends.

Stewart (1998) uses turnover rates constructed by combining data from the March CPS Income Supplements with data from the March Basic CPS for the period covering 1975–1995, and finds no evidence that job stability has decreased. In fact, he finds that job stability, as measured by turnover rates, has increased. The author does note that there was a large decrease in stability for male high school dropouts and a moderate decrease for older men. Job stability has increased dramatically for women with at least a high school diploma.

Previous Research on Job Security

Farber (1996) uses the Displaced Workers Surveys from the CPS covering years 1981–1993 to examine changes in the incidence (and consequences) of job loss among workers ages 20–64. He finds that overall job loss rose somewhat in the 1990s relative to the 1980s, and, in particular, the increase is larger for older and more educated workers, especially men. Furthermore, the

most substantial changes are increases the last several years in the rates of job loss due to “position or shift abolishment”³⁰ (38 percent higher in 1991–1993, compared with 1989–1991 and about 60 percent higher compared with the mid-1980s). Again, these changes tend to be concentrated among more educated workers. The rate of job loss due to plant closings has been steady over time, and the rate due to slack work is found to be cyclical. It is also found that the rates of job loss for managers showed a substantial increase from their 1987–1989 level, and job loss due to “position abolished” accounts for all (and more) of this increase. Furthermore, there has been a substantial increase in job loss due to position/shift abolishment in nonprofessional service industries. Professional services and finance, insurance, and real estate industries also experienced a large relative increase in job loss due largely to position/shift abolishment.

Valetta (1996) uses CPS unemployment data from 1968–1993 to identify those unemployed due to permanent dismissal, temporary or indefinite layoffs, voluntary quits, or entrance into the labor force. He finds that the share of unemployment attributable to permanent dismissals has increased steadily, while that attributable to layoffs has decreased. From this, the author concludes that employers are adjusting employment more by permanent dismissals and less by layoffs, i.e., job security has decreased over time. Another explanation that could account for some of the change is employment shifts across industries, specifically toward those where permanent dismissals have historically been more common.

McCurrer (1996) concludes that job security has declined in recent years, but the decrease has been modest and is likely smaller than popularly believed. He uses CPS unemployment data to examine “permanent job losers,” i.e., individuals whose employment ended

³⁰ Workers who lost a job due to corporate downsizings or restructuring are most likely to classify the reason for their job loss as “position or shift abolishment.” Note that workers self report these reasons.

involuntarily and who are not on temporary layoff. He finds that permanent job loss rates increased during the early 1990s; and it appears that permanent job loss is replacing temporary layoffs. Permanent job losers represented a growing share of total unemployment in the early 1990s; and relative to the 1970s and 1980s, a greater percentage of unemployment increases (70 percent versus 46 percent) in the early 1990s could be directly attributed to increased rate of permanent job loss.

Valetta (1997) discusses additional evidence (using the CPS displaced worker survey covering years 1981 to 1995) on job displacement and its implications. The author finds that job displacements due to abolition of a position or shift have increased since the recession of the early 1990s. The author maintains that such displacements are likely to reflect corporate restructuring activity, in which firms reorganize their internal operation by redefining job responsibilities and eliminating specific groups of workers. Given this argument, it appears that the early 1990s recession coincided with a sharp increase in restructuring, which has continued through 1995. He further finds that displacement rates for white-collar workers have remained at their recessionary levels, while those of blue-collar workers have fallen. Other evidence supports the view that it is highly skilled and high wage workers who have experienced a disproportionate share of the increase in displacement rates. He concludes that the data are consistent with the view that high displacement rates in recent years were largely due to corporate downsizing, with much of the consequent burden falling on skilled white-collar workers with substantial job seniority.

Using data from the CPS Displaced Worker Surveys, Hipple (1997) concludes that the economic expansion and improvement in the job market in the mid-1990s led to a decline in worker displacement. The author uses 2 years of data from each of the displaced worker surveys to construct a time series that begins with the 1981–1982 period and ends with the 1993–1994

period. The analysis focuses on workers who lost jobs held for at least 3 years, under the assumption that these long-tenured workers have developed a more-than-marginal attachment to their jobs. He found that between 1993 and 1994, 3.2 percent of all workers who had been with the same employer for 3 years or more years were displaced from their jobs, compared with 3.9 percent during 1991–1992. Over the longer period examined, worker displacement rates fell from 3.9 percent in 1981–1982 to 2.4 percent in 1987–1988, then rose to 3.9 percent in 1991–1992, and finally fell to the 1993–1994 level of 3.2 percent. There were no displaced worker surveys prior to January 1984; therefore, comparable analysis cannot be done for earlier periods.

Appendix II

Implications for Health Care Benefits

An immediate concern for a worker leaving a job may be lost health insurance coverage. The original purpose of the continuation-of-coverage provision of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) was to assure individuals access to health insurance during periods of unemployment and job change. The coverage offered must be identical to that available prior to the change in the worker's employment status and must be available for 18 months. While access to coverage is not an issue for workers who return to work (because most return to work within 18 months), COBRA coverage premiums may be outside the range of an individual's budget constraint, making it ineffective for people trying to maintain health insurance coverage with limited resources. Employees cannot be charged more than 102 percent of the employer's average health insurance premium, which may be less than the employer's actual cost but more than the employee was

used to paying for health insurance. Because COBRA requires individuals to pay up to 102 percent of the average cost, persons leaving jobs may not always take advantage of the insurance. Furthermore, when displaced from a job, affordability may be an even larger issue for low-income workers, as they are less likely than higher earners to return to work. The result is that many go uninsured and either do not receive necessary care or the public ends up paying the bill.

As a result, portability and affordability were the central issues surrounding the health insurance debate in 1996. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) attempts to address portability and affordability by including measures such as preexisting condition exclusions,³¹ guaranteed access³² to health insurance, guaranteed renewal³³ of health insurance, increases in the health insurance deduction for the self-employed, and medical savings accounts (MSAs). The main purpose of the bill is to increase individuals' opportunity to maintain health insurance as they change jobs. While the resulting legislation allows individuals to change insurers without being subjected to a new waiting period for preexisting conditions and reforms the market for individual and group health insurance, it does not radically change the 1985 COBRA law. Unemployed individuals still face the issue of affordability.

³¹ Preexisting condition exclusions are mechanisms that insurers use to restrict an enrollee's access to health care benefits relating to the individual's previous medical condition. These waiting periods are typically 6 months or 12 months; however, a group health plan has to take into account an individual's prior creditable coverage when applying any preexisting condition limit.

³² Guaranteed access requires insurers that offer coverage to make coverage available to any individual or group that applies, regardless of the health conditions of the individual or the individuals in that group.

³³ Guaranteed renewal requires an insurer to renew coverage for an individual or group at the option of the covered individual or group. Typically, policies may be canceled or not renewed for nonpayment of premiums, fraud or misrepresentation, termination of the plan, or the failure of the plan sponsor to meet contribution or participation requirements.

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