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Employee benefits continue to represent a significant part of total compensation. In 1989, U.S. employers (public and private) spent $500 billion for employee benefits, representing more than 16 percent of total compensation.

Questions and Answers on Employee Benefit Issues

- Total participation in private pension plans grew to 78.2 million in 1987, up 1.5 million from the prior year. Since 1975, pension plan participation has experienced a net increase of 33.7 million.
- Defined benefit plans as a percentage of all private pension plans have fallen from 33.2 percent in 1975 to 19.3 percent in 1988. At the same time, there has been an increase in the percentage of defined contribution plans from 66.8 percent to 80.7 percent.
- Private and public pension funds held more than $2.9 trillion in assets at the end of 1990, with an increase of $17 billion from year-end 1989. The 1990 year-end assets are more than double the asset level of 1982.
- In 1989, almost 180 million persons under age 65 had health insurance coverage, while 34.4 million people—or about 16 percent of the nonelderly population—received neither private health insurance nor publicly financed health coverage. Most of the uninsured were working adults (54.6 percent), while the remainder were nonworking adults (16.7 percent) or children (28.7 percent).
- U.S. expenditures on health care totaled $666.2 billion in 1990, up from $602.8 billion in 1989, accounting for 12.2 percent of Gross National Product (GNP) in 1990. The federal government projects that spending will reach 16.4 percent of GNP in 2000.
- Employer outlays for group health insurance as a proportion of total compensation have increased since 1980, most recently edging up from 4.3 percent in 1985 to 4.7 percent in 1989.

◆ Introduction

Employee benefits continue to represent a significant part of total compensation. **In 1989, U.S. employers (public and private) spent $500 billion for noncash benefits, representing more than 16 percent of total compensation.** Although as a percentage of total compensation ($3 trillion) outlays for employee benefits have remained relatively constant since 1980, the allocation of this amount among benefits has changed over time. Since 1980, employer spending for medical benefits has grown as a proportion of total compensation, while spending for retirement income benefits has declined.

In addition, benefits themselves have changed. Pension benefits are often tied to company performance, giving employees a larger stake in company success, and the rising cost of medical care has led many employers to reevaluate health benefits and share the cost with their employees.

The changing demographics of the work force have created pressures on employers to consider offering flexible benefits and child care benefits, which accommodate workers in two-worker households and working parents.

Health care cost management techniques, state insurance mandates, revised retiree health accounting rules, and continuing pension regulations add to the complexity of benefit packages.

This *Issue Brief* addresses 19 topics in the areas of pensions, health insurance, and other benefits. Using a question and answer format, the discussion draws largely on Employee Benefit Research Institute (EBRI) research.

Below is a list of the questions in this report and the pages on which they are located.

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1. *How much do employees value employer-provided benefits?*

More than two-thirds of Americans (70 percent) consider employee benefits such as health insurance, pensions, vacation, child care, life insurance, and sick leave "very important," when deciding whether to accept or reject a job offer, according to a recent public opinion survey by EBRI and The Gallup Organization, Inc.[1] A similar EBRI/Gallup survey in 1990 found that 57 percent of Americans considered these employee benefits "very important" in making an employment decision.

The 1991 survey also found Americans still regard health insurance as the most important employee benefit (65 percent in 1991 and 63 percent in 1990). In fact, 57 percent of respondents to the 1991 survey said they would not accept a job that did not provide health insurance; this response was particularly frequent among those aged 55 and older (61 percent) and those with annual incomes between $20,000 and $74,999 (58 percent). For respondents who indicated they have health benefits (71 percent), the average amount of additional annual pay they said they would need in order to give up that benefit was $4,096.

Despite the importance Americans place on health insurance, the majority of respondents receiving health insurance through employers said they did not know how much their employers contribute toward the coverage (57 percent). However, this is a decrease from 71 percent in 1990.

While the importance of health insurance as an employee benefit has remained strong, pensions are becoming increasingly important—35 percent of respondents to the survey rated pensions the second most important benefit, compared with 17 percent who listed pensions second in importance in 1990. Concern for adequate retirement income may explain why 39 percent of respondents said they would not accept a job that did not offer a pension plan. The unwillingness to accept a job without a pension plan was highest among those aged 55 and over (52 percent) and minorities (53 percent). For those respondents who reported they had pension benefits (53 percent), the average amount of additional annual pay they said they would need in order to give up that benefit was $5,312.

Most respondents ranked child care as the least important benefit (48 percent), followed by parental leave (19 percent), and a savings plan (9 percent).

When respondents to the 1991 survey were asked if they had ever actually changed, quit, or accepted a job based on the benefits provided, 21 percent said yes, an increase from 15 percent one year ago. Respondents said if they had a choice between two identical jobs—only one of which offered benefits—they would require a median amount of approximately

[1]See Employee Benefit Research Institute/The Gallup Organization, Inc., *Public Attitudes on the Value of Benefits, 1991*, EBRI Report no. G-23 (Washington, DC: Employee Benefit Research Institute, 1991). The survey was conducted in April of this year and is the twenty-third in a series of nationwide public opinion surveys EBRI is undertaking on public attitudes toward economic security issues. The surveys are conducted monthly for EBRI by The Gallup Organization, Inc., which questions 1,000 Americans by telephone. The maximum expected error range at the 95 percent confidence level is ±3.1 percent.

$10,000 in additional annual pay to accept the job without benefits.

2. ***How much do employers spend on employee benefits?***

Public and private employer spending for employee benefit programs exceeded $500 billion in 1989. This represented an absolute increase of $31.3 billion, or 6.7 percent, from 1988. However, as a percentage of total compensation ($3.1 trillion), outlays for employee benefits have remained essentially constant since 1980, at somewhat more than 16 percent (table 1).

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In 1989, employer spending for public and private retirement plans (other than Social Security) totaled $120.0 billion.

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In 1989, employers spent $145.0 billion for group health insurance, up $12.9 billion from 1988. Since 1980, spending for group health insurance has constituted the largest single major component of nonwage compensation. Employer outlays for group health insurance as a proportion of total compensation have increased since 1980, most recently edging up from 4.3 percent in 1985 to 4.7 percent in 1989.

Total outlays for all health-related benefits amounted to $178.1 billion in 1989, including Medicare (HI) expenditures of $31.8 billion and military medical insurance of $1.3 billion. This total compares with total health-related outlays of $162.8 billion in 1988—a 9.4 percent increase.

In 1989, employer spending for public and private retirement plans (other than Social Security) totaled $120.0 billion. Before 1985, these components collectively represented the largest major element of nonwage compensation. Employer contributions to public and private retirement plans are the only component of compensation to decline as a percentage of the total every year since 1982. Peaking at 5.8 percent in 1980, the percentage dropped to 3.9 in 1989. This decline is predominantly due to a reduction in private pension contributions from $57.4 billion (or 3.0 percent of total compensation) in 1982 (not shown) to $47.9 billion (1.6 percent of total compensation) in 1988. This decline may be attributable to a number of factors. Higher-than-expected returns on investments during the mid-1980s may have enabled companies to reduce annual defined benefit pension contributions. In addition, companies may have been required to reduce defined benefit contributions due to maximum funding limits that were enacted as part of the Pension Protection Act in the Omnibus Budget Reconciliation Act of 1987 and became effective the following year. These rules prohibit additional tax-deductible contributions once a pension plan's assets reach a certain level (150 percent of the obligation to participants that the employer would incur if the plan were terminated).

Employer payroll taxes for the Social Security retirement and disability program (OASDI) have grown steadily since 1960, amounting to $127.2 billion in 1989—a 7.7 percent increase from 1988 and a 22.4 percent increase over employer outlays of $103.9 billion in 1987. This increase was due partly to previously enacted OASDI payroll tax increases and automatic increases in the Social Security wage base (earnings subject to taxes).

Employer outlays for workers' compensation amounted to $37.8 billion in 1988 and $41.5 billion in 1989, an increase of 9.8 percent. Until 1988, annual increases in workers' compensation costs outpaced all other benefit increases, as premiums in many states rose. Much of the premium increase is attributed to increases in medical claims costs (Thompson, 1990).

Employer spending for unemployment insurance declined slightly to $23.1 billion in 1989, down from $24.3 billion in 1988, remaining steady at 0.8 percent of total compensation.

Table 1
Employer Outlays for Employee Compensation, Selected Years, 1960–1989

Component of Compensation	1960	1970	1980	1985	1987	1988	1989
				(billions of dollars)			
Total Compensation	$296.8	$618.2	$1,638.1	$2,367.4	$2,686.2	$2,904.8	$3,078.7
Wages and salaries	272.8	551.5	1372.0	1975.2	2249.7	2431.1	2573.2
All benefits	23.7	66.1	264.3	389.0	432.6	469.4	500.7
Other labor income[a]	0.3	0.6	1.9	3.3	4.0	4.3	4.8
Retirement Income Benefits	14.2	40.3	150.5	205.5	219.2	234.3	247.2
Social Security OASDI	5.6	16.2	55.6	91.5	103.9	118.1	127.2
Public and private retirement plans	8.6	24.1	94.9	114.0	115.3	116.2	120.0
private employer pension and profit sharing	4.9	13.1	54.2	54.6	50.9	47.9	47.8
public employer retirement plans	3.7	11.0	40.7	59.4	64.4	68.3	72.2
Health Benefits	3.4	14.6	71.6	124.3	146.1	162.8	178.1
Social Security HI	0.0	2.3	11.6	22.7	27.7	29.5	31.8
Group health insurance	3.4	12.1	59.6	100.8	117.4	132.1	145.0
Military medical insurance	0.0	0.2	0.4	0.8	1.0	1.2	1.3
Other Employee Benefits	6.1	11.3	42.2	59.1	67.3	72.3	75.4
Unemployment insurance	3.0	3.8	16.4	26.0	24.2	24.3	23.1
Workers' compensation	2.0	4.6	19.2	24.4	33.6	37.8	41.5
Group life insurance	1.1	2.9	6.6	8.7	9.5	10.2	10.8
				(percentage of total compensation)			
Total Compensation	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Wages and salaries	91.9	89.2	83.8	83.4	83.7	83.7	83.6
All benefits	8.0	10.7	16.1	16.4	16.1	16.2	16.3
Other labor income[a]	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Retirement Income Benefits	4.8	6.5	9.2	8.7	8.2	8.1	8.0
Social Security OASDI	1.9	2.6	3.4	3.9	3.9	4.1	4.1
Public and private retirement plans	2.8	3.9	5.8	4.8	4.3	4.0	3.9
private employer pension and profit sharing	1.6	2.1	3.3	2.3	1.9	1.6	1.6
public employer retirement plans	1.2	1.8	2.5	2.5	2.4	2.4	2.3
Health Benefits	1.1	2.4	4.4	5.3	5.4	5.6	5.8
Social Security HI	0.0	0.4	0.7	1.0	1.0	1.0	1.0
Group health insurance	1.1	2.0	3.6	4.3	4.4	4.5	4.7
Military medical insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Employee Benefits	2.1	1.8	2.6	2.5	2.5	2.5	2.4
Unemployment insurance	1.0	0.6	1.0	1.1	0.9	0.8	0.8
Workers' compensation	0.7	0.7	1.2	1.0	1.3	1.3	1.3
Group life insurance	0.4	0.5	0.4	0.4	0.4	0.3	0.4

Source: Employee Benefit Research Institute tabulations based on *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, selected years.
[a]Consists primarily of directors' fees.

The National Income and Products Account (NIPA) data implicitly include as a component of wages and salaries payment for time not worked—vacation leave, holiday leave, sick leave, and personal leave—but do not separate the amount paid for such leave. Survey data from the U.S. Department of Labor (DOL) estimate that the value of paid leave represented 6.8 percent of total compensation in 1991, down from 7.0 percent in March 1988 (U.S. Department of Labor, 1991b).[2]

◆ Pensions and Retirement Income

3. *How many people currently receive retirement income? What are the sources, and how much do they receive?*

In 1988, 95 percent of the 22.3 million married couples and single individuals aged 65 and over received retirement benefits, including private pensions and Social Security (table 2). Forty-two percent of this group received some type of pension income in the form of private pensions and annuities, government employee pensions, or railroad retirement plans. The percentage of people receiving public or private retirement benefits other than Social Security has risen steadily; in 1976, only 31 percent of the elderly received such benefits. In 1988, 38 percent of the elderly's aggregate income came from Social Security, 25 percent from assets, 17 percent from earnings, and 17 percent from employer-sponsored pensions (Grad, 1988, 1990). In 1988, the median total family income[3] for individuals aged 65 and over was $15,657, compared with $14,500 in 1986. The median income of aged

[2]DOL and NIPA data differ because NIPA data represent the entire economy, while DOL data are restricted to all private nonfarm establishments.

[3]The sum of total money incomes of all persons related by blood, marriage, or adoption and residing together.

Table 2
Elderly's Income Sources over Time

Percentage of Single Individuals and Married Couples[a] Aged 65 and Older with Income from Specified Sources, 1976–1988,[b] Selected Years

Source of Income	1976	1978	1980	1982	1984	1986	1988
Number (in millions)	17.3	18.2	19.2	19.9	20.8	21.6	22.3
Percentage with							
Retirement benefits	92%	93%	93%	93%	94%	94%	95%
Social Security[c]	89	90	90	90	91	91	92
Retirement benefits other than Social Security	31	32	34	35	38	40	42
railroad retirement	3	3	2	2	2	2	2
government employee pensions	9	10	12	12	14	14	14
private pension or annuities	20	21	22	23	24	27	29
Earnings	25	25	23	22	21	20	22
Income from assets	56	62	66	68	68	67	68
Veterans' benefits	6	5	5	4	5	5	5
Public assistance	11	10	10	16	16	7	7

Source: Susan Grad and Karen Foster, *Income of the Population 55 and Over, 1976*, U.S. Department of Health, Education, and Welfare, pub. no. 13-11865 (Washington, DC: U.S. Government Printing Office, 1979); Susan Grad, *Income of the Population 55 and Over*, 1978, 1980, 1982, and 1984, U.S. Department of Health and Human Services, Social Security Administration, pub. no. 13-11871 (Washington, DC: U.S. Government Printing Office, 1981–1985); and Susan Grad, *Income of the Population 55 or Older, 1986*, U.S. Department of Health and Human Services, Social Security Administration, pub. no. 13-11871 (Washington, DC: U.S. Government Printing Office, 1988).
[a]Couples are included if they are married, living together, and at least one is aged 65 or over.
[b]Receipt from sources is ascertained by a yes/no response to a question that is asked by the Current Population Survey. A married couple receives income from a source if one or both persons are recipients of that income.
[c]Recipients of Social Security may be transitionally insured or may be receiving retired-worker benefits, dependents' or survivors' benefits, or special age 72 benefits.

units[4] rose $1,213 between 1986 and 1988 to $12,123. The average retirement income of married couples is higher than that of unmarried elderly individuals. In 1988, the median total family income for elderly married couples was $22,063. This compares with the median total family income of unmarried elderly individuals of $11,179 (Grad, 1988, 1990).

4. *What is the total number of private pension plans? What is the breakdown of these plans by number of participants?*

The total number of private pension plans rose to 737,300 in 1988, climbing from 733,000 in 1987 (table 3). The total number of private defined benefit plans dropped from 161,100 in 1987 to 142,500 in 1988—a 12.9 percent decrease. Conversely, the total number of private defined contribution plans rose from 570,000 to 594,800 between 1987 and 1988, an increase of 4.4 percent.

Defined Benefit Plans—**As a percentage of all private pension plans, defined benefit plans have fallen from 33.2 percent in 1975 to 19.3 percent in 1988. At the same time, the percentage of defined contribution plans has increased** (table 3).

Defined Contribution Plans—The most common forms of defined contribution plans are profit sharing and thrift/savings plans. Other forms include money purchase plans, target benefit plans, stock bonus, 403(b) tax-deferred annuities, and simplified employee pensions (SEPs).

Many of these plans can be structured to include 401(k) arrangements or employee stock ownership plans (ESOPs). Most 401(k)s are part of a profit-sharing or thrift plan. ESOPs are often part of a combination stock bonus and money purchase pension plan (Turner and Beller, 1989).

Nearly all of the private pension plans in 1988 (92.6 percent) had fewer than 100 participants (table 3). The percentage of all private plans with fewer than 100 participants has remained fairly steady at somewhat more than 90 percent over the past 15 years. In 1988 and previous years, private pension plans were concentrated in the private single-employer plan category (92.5 percent of all plans were private single-employer plans with fewer than 100 participants) (table 3).

5. *How many workers participate in employer-sponsored pension plans? In what types of plans do they participate?*

Total participation in private pension plans grew to 78.2 million in 1987, up 1.5 million from the prior year (table 4). Since 1975, pension plan participation has experienced a net increase of 33.7 million. (These figures include active, retired, and separated-from-service participants and do not adjust for double counting of employees participating in multiple plans.)

Because participants are counted once for each plan in which they participate, the above figures inflate the actual number of individuals participating in a retirement plan. Many participants are in a primary plan—a defined benefit plan or a defined contribution plan—and are also in one or more secondary plans—usually a defined contribution plan. When the numbers are adjusted to avoid duplication and include only active participants, estimates indicate that there were only 41.9 million active participants in 1987. A closer look at the distribution of these participants among plans shows that 28.6 million were in primary defined benefit plans and 13.4 million were in primary defined contribution plans.[5]

Since 1975, participation in primary defined contribution plans has grown from 3.9 million to 13.4 million—more than a threefold increase. At the

[4]The sum of all money income received by an aged married couple or unmarried individual. Unit income and family income are the same for aged units who live with no other relatives.

[5]Numbers do not add to total due to rounding.

Table 3

Private Pension Plans, by Size, Type of Plan, and Number of Participants, Selected Years 1975–1988

Plan	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988
					(in thousands)					
All Private Plans										
Total	311.1	488.9	545.6	594.5	602.8	604.4	632.1	717.6	733.0	737.3
defined benefit	103.3	148.1	167.3	175.0	175.1	165.0	170.2	172.6	163.1	142.5
defined contribution	207.7	340.8	378.3	419.5	427.7	436.4	462.0	545.0	570.0	594.8
Private Single Employer Plans[a]										
Total	308.7	486.1	542.8	591.4	599.8	601.4	629.1	714.6	729.9	734.0
defined benefit	101.2	145.8	165.0	172.7	172.8	165.7	167.9	170.4	160.9	140.3
defined contribution	207.4	340.4	377.7	418.8	427.0	435.7	461.2	544.1	569.0	593.7
Private Multiemployer Plans[b]										
Total	2.4	2.8	2.8	3.0	3.0	3.0	3.1	3.1	3.1	3.3
defined benefit	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.1
defined contribution	0.3	0.4	0.6	0.7	0.7	0.7	0.8	0.9	1.0	1.2
					(percentage of all plans)					
All Private Plans										
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
defined benefit	33.2	30.3	30.7	29.4	29.1	27.3	26.9	24.1	22.3	19.3
defined contribution	66.8	69.7	69.3	70.6	71.0	72.5	73.3	76.1	78.0	80.7
Private Single Employer Plans[a]										
defined benefit	32.5	29.8	30.2	29.1	28.7	27.4	26.6	23.8	22.0	19.0
defined contribution	66.7	69.6	69.2	70.5	70.8	72.1	73.0	75.8	77.6	80.5
Private Multiemployer Plans[b]										
defined benefit	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
defined contribution	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
					(percentage of plans with fewer than 100 participants)					
All Private Plans										
Total	90.8%	92.2%	92.6%	92.9%	92.6%	92.5%	92.3%	92.9%	92.9%	92.6%
defined benefit	26.8	25.3	26.1	25.2	24.8	23.6	23.0	20.7	19.1	16.2
defined contribution	64.0	67.0	66.6	67.7	67.9	68.8	69.3	72.3	73.9	76.4
Private Single Employer Plans[a]										
Total	90.7	92.2	92.6	92.8	92.5	92.4	92.3	92.9	92.9	92.5
defined benefit	26.7	25.2	26.1	25.1	24.7	23.6	23.0	20.6	19.0	16.2
defined contribution	64.0	67.0	66.5	67.7	67.8	68.8	69.3	72.2	73.9	76.4
Private Multiemployer Plans[b]										
Total	0.1	0.1	0.1	0.1	0.1	0.1	0.1	c	c	0.1
defined benefit	c	0.1	c	c	c	c	c	c	c	c
defined contribution	c	c	c	c	c	c	c	c	c	c

Source: John A. Turner and Daniel J. Beller, eds., *Trends in Pensions* (Washington, DC: U.S. Government Printing Office, 1989); unpublished data from the U.S. Department of Labor, Pension and Welfare Benefits Administration.

[a]Includes single employer plans, plans of controlled groups of corporations and multiple-employer noncollectively bargained plans.

[b]Includes multiemployer plans and multiple-employer collectively bargained plans.

[c]Less than 0.05 percent.

Note: Data for 1987 and 1988 are based on preliminary estimates.

same time, the number of participants in primary defined benefit plans increased from 26.8 million in 1975 to a high of 29.8 million in 1984 but has dropped each year since.

Table 4
Penslon Plan Participants

Participants[a] in Public and Private Single Employer and Multiemployer Plans, Selected Years, 1975–1987

Plan	1975	1980	1981	1982	1983	1984	1985	1986	1987
All Private Plans[b]					(in millions)				
Total	44.5	57.9	60.6	63.2	69.1	73.9	74.7	76.7	78.2
defined benefit	33.0	38.0	38.9	38.6	40.0	41.0	39.7	40.0	40.0
defined contribution	11.5	19.9	21.7	24.6	29.1	32.9	35.0	36.7	38.3
Private Single Employer Plans[c]									
Total	35.7	48.9	51.3	54.1	59.6	64.2	65.4	67.1	68.6
defined benefit	24.5	29.6	30.3	30.3	31.4	32.3	31.4	31.7	31.7
defined contribution	11.2	19.4	21.0	23.8	28.2	31.9	34.0	35.4	36.9
Private Multiemployer Plans[d]									
Total	8.8	9.0	9.2	9.1	9.5	9.7	9.3	9.6	9.7
defined benefit	8.5	8.4	8.6	8.3	8.6	8.7	8.3	8.3	8.3
defined contribution	0.3	0.6	0.7	0.8	0.9	1.0	1.0	1.3	1.4
Unduplicated Active Primary Plan Participants[e]									
Total	30.7	35.9	36.9	37.5	39.0	39.7	40.4	41.3	41.9
defined benefit	26.8	29.7	29.7	29.4	29.6	29.8	28.9	28.6	28.6
defined contribution	3.9	6.2	7.2	8.1	9.4	9.9	11.6	12.7	13.4
Public Plans									
Total	16.9	20.0	f	20.5	20.6	21.0	21.4	21.6	f
federal plans	4.1	4.5	f	4.6	4.7	4.8	4.9	4.9	f
U.S. civil service[g]	4.1	4.5	f	4.6	4.7	4.8	4.9	4.9	f
FERS[h]	i	i	i	i	i	i	i	i	0.8
railroad retirement system	1.6	1.5	1.4	1.4	1.4	1.4	1.3	1.3	f
military retirement system[j]	5.9	6.5	6.7	6.7	6.8	6.9	7.1	7.2	f
state and local plans	11.2	14.0	14.2	14.5	14.5	14.8	15.2	15.4	f

Source: John A. Turner and Daniel J. Beller, eds., *Trends in Pensions* (Washington, DC: U.S. Department of Labor, 1989); Richard Ippolito and Walter Kolodrubetz, eds.,*The Handbook of Pension Statistics, 1985* (Chicago: Commerce Clearing House, Inc., 1986); unpublished data from the U.S. Department of Labor, Pension and Welfare Benefits Administration; American Council of Life Insurance, *Pension Facts 1987* (Washington, DC: American Council of Life Insurance, 1987); and U.S. Office of Personnel Management, *Civil Service Retirement and Disability Fund, Annual Report,1987* (Washington DC: Office of Personnel Management, n.d.).

[a]Unless otherwise noted, includes active, separated, and vested participants and beneficiaries.

[b]Data based on IRS Form 5500 series. Individuals participating in more than one plan are counted once for each plan in which they participate.

[c]Includes single employer plans of controlled groups of corporations and multiple employer noncollectively bargained plans.

[d]Includes multiemployer plans and multiple-employer collectively bargained plans.

[e]Data for 1986 and 1987 are based on preliminary estimates.

[f]Data unavailable.

[g]Includes U.S. Civil Service Retirement System (CSRS), Federal Reserve, Foreign Service, and Tennessee Valley Authority employees. CSRS accounts for more than 95 percent of participants in all years.

[h]Federal Employee Retirement System. Second tier of federal plan for workers hired after January 1, 1984; became operational January 1, 1987. Number as of September 1987.

[i]Not applicable.

[j]Includes all active duty and reserve members of the U.S. armed forces.

The growth of participants in primary defined contribution plans, combined with a growth in secondary defined contribution plan participation, has produced the growth in total plan participation previously noted. In 1975, there were 7.2 million active participants in secondary defined contribution plans (Cerino and

Owen, 1989). By 1987, participation had tripled to 22.1 million.[6] Very few defined benefit plans are secondary.

Private Sector—Participation is heavier in private single-employer plans than in multiemployer plans by more than 6 to 1, and the gap has grown steadily since 1975. **In 1987, 68.6 million pension participants were in single-employer plans, up from 35.7 million in 1975** (table 4). **In comparison, there were 9.7 million pension participants in multiemployer plans in 1987, up from 8.8 million in 1975.** The majority (8.3 million) of participants in multiemployer plans are in defined benefit plans. Participants in single-employer plans are more evenly distributed between defined benefit (31.7 million) and defined contribution (36.9 million) plans.

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Private and public pension funds held more than $2.9 trillion in assets at the end of 1990, with an increase of $17 billion from year-end 1989.

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Public Sector—Participation in public-sector pensions has grown more slowly than that in private-sector plans. **In 1986 (the latest year for which data are available), there were approximately 22 million participants in public-sector plans, up from 16.9 million in 1975.** Public plans include those in the federal government—civil service retirement plans, the Federal Employee Retirement System, and the railroad and military retirement systems—and those in state and local governments. The bulk of public-sector retirement plan participants are in state and local plans.

[6]These numbers are not adjusted to reflect double counting of participants in more than one supplemental plan.

6. *How much do pension plans hold in assets? Where are the funds invested?*

Private and public pension funds held more than $2.9 trillion in assets at the end of 1990, with an increase of $17 billion from year-end 1989. The 1990 year-end assets are more than double the asset level of 1982 (table 5).

Assets in private pension plans include trusteed and insured funds. Trusteed funds are managed by a trustee, which may be an employee of the plan sponsor, a bank, or a trust company. Insured funds are managed by a life insurance company, which receives premiums from the plan sponsor and guarantees payment of future benefits.

Pension assets are divided among private trusteed, private insured, and public funds, with assets in trusteed funds accounting for approximately 46 percent of total assets, and insured funds holding 20 percent of total pension assets. A closer look at the asset allocation of private trusteed funds reveals that in 1990 25.9 percent of the assets were in single-employer defined benefit plans, 14.9 percent were in single-employer defined contribution plans, and 4.9 percent in multiemployer plans. No data are available to show the distribution of insured fund assets between defined benefit and defined contribution plans.

Assets in state and local retirement funds totaled $756 billion at the end of 1990, representing 25.9 percent of all pension fund assets. Assets in the federal government pension funds amounted to $251 billion at the end of 1990, representing 8.6 percent of total pension assets.[7] Data to show the distribution of these assets between defined benefit/and defined contribution plans are also unavailable.

[7]Assets in public pension funds are reported somewhat differently than those in private pension funds. Data for private trusteed funds include all assets. Due to reporting differences among the sources, public fund data include only financial assets, not real estate, physical property, or receivables. Private insured numbers exclude real estate. All assets are at market value, except state and local government funds, which (except for equity) are at book value.

Investment—While some observers view pension fund assets as one lump of money, in practice, pension funds differ markedly in management, investment policies, and investment allocation. Some of this diversity can be seen in the portfolio allocations of various types of plans.

At the end of 1990, single-employer defined contribution plans held 42.1 percent of their assets in equity, 8.1 percent in bonds, 11.9 percent in cash, and 37.9 percent in other asset categories, including bank-pooled funds, real estate holdings, mortgage-backed securities, guaranteed investment contracts, and mutual funds. In comparison, defined benefit plans held 36.5 percent of their assets in equity, 17.6 percent in bonds, 3.7 percent in cash, and 42.1 percent in other assets. Multiemployer plans held 27.9 percent in equity, 42.6 percent in bonds, 6.0 percent in cash, and 23.5 in other assets. (These data are for private trusteed funds only; most insured pension funds are in insurance company general accounts, which are comingled with nonpension assets.) State and local government funds are proportionately more heavily invested in bonds than other

Table 5
Pension Plan Assets
Assets[a] of Private and Public Pension Funds, 1982–1990

	Private Trusteed				Public		
	Single-employer						
Year	defined benefit	defined contribution	Multi-employer	Private Insured	Federal government	State & local government	Total
				($ billions)			
1982	$399	$196	$ 61	$211	$ 98	$ 263	$1,227
1983	449	239	72	246	112	311	1,429
1984	460	256	79	286	130	357	1,568
1985	545	325	98	344	149	405	1,865
1986	588	359	114	407	170	469	2,107
1987	598	386	117	460	188	517	2,266
1988	661	422	129	517	208	606	2,543
1989	765	466	147	580	229	735	2,908
1990	757	437	144	580[b]	251	756	2,925
				(as a percentage of total pension assets)			
1982	32.5%	16.0%	5.0%	17.2%	8.0%	21.4%	100.0%
1983	31.4	16.7	5.0	17.2	7.8	21.8	100.0
1984	29.3	16.3	5.0	18.2	8.3	22.8	100.0
1985	29.2	17.4	5.3	18.5	8.0	21.7	100.0
1986	27.9	17.0	5.4	19.3	8.1	22.3	100.0
1987	26.4	17.0	5.2	20.3	8.3	22.8	100.0
1988	26.0	16.6	5.1	20.3	8.2	23.8	100.0
1989	26.3	16.0	5.1	19.9	7.9	24.8	100.0
1990	25.9	14.9	4.9	19.9[b]	8.6	25.9	100.0

Source: Employee Benefit Research Institute, *Quarterly Pension Investment Report*, fourth quarter 1990 (Washington, DC: Employee Benefit Research Institute, 1991); Board of Governors of the Federal Reserve System, *Flow of Funds Accounts, Assets and Liabilities Outstanding 1982–1990* (Washington, DC: Board of Governors of the Federal Reserve System, 1990).

[a]Data for private trusteed funds include all assets. Due to reporting differences among the sources, public fund data include only financial assets, not real estate, physical property, or receivables. Private insured numbers exclude real estate. All assets are at market value, except state and local government funds, which (except for equity) are at book value.

[b]Data for 1989.

plans, with 55 percent of assets in bonds, 39 percent in equity, 4 percent in cash, and 2 percent in other investments.

The allocation of assets among the various types of pension plans appears to be changing somewhat. While single-employer defined contribution plans invest the greatest proportion of assets in equity relative to other plans, differences in asset allocation are lessening. In 1982, defined benefit plans held about 36 percent of assets in equity and 22 percent in bonds; state and local plans held less than 23 percent in equity and 69 percent in bonds. In 1990, state and local plans held nearly 60 percent of their assets in bonds, compared with 95 percent in 1950 (Employee Benefit Research Institute, 1991).

The motivation behind differences in asset allocation among plan types is not entirely clear. Work force demographics and certain constraints on contributions may have some significance.[8] In particular, state and local government pension funds are often encouraged to invest in certain state or municipal projects (usually funded through the issuance of bonds) or are limited under state laws to a maximum investment in certain vehicles, particularly equities.

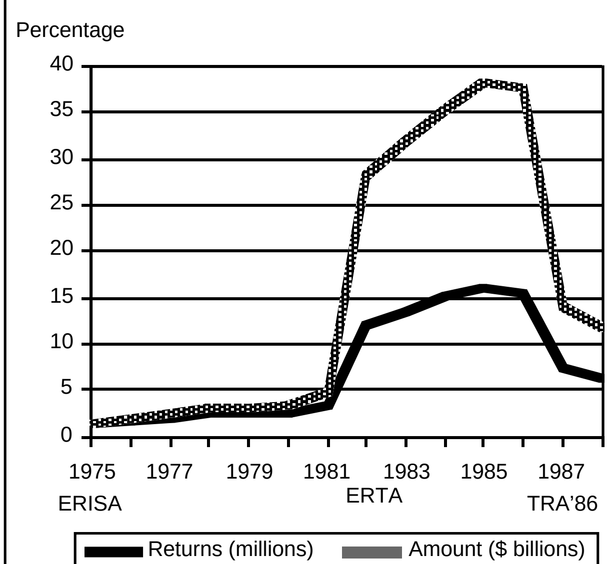
7. *What other ways can individuals save for retirement on a tax-effective basis? How can the self-employed save for retirement?*

Individuals can save for retirement in the same ways they save for personal uses: regular savings accounts, certificates of deposit, mutual funds, stocks, bonds, etc. However, there are fewer savings vehicles (nonemployer-based) designed exclusively for retirement. One is an individual retirement account (IRA).

IRAs were originally established in 1974 with the enactment of the Employee Retirement Income Security Act of 1974 (ERISA) for workers who did not have a pension plan at their job. The Economic Recovery Act of 1981 (ERTA) extended eligibility for deductible IRA contributions to all workers and their nonworking spouses, including those workers with employer-sponsored pension plans. In addition, ERTA raised the deduction limit to the lesser of $2,000 (unindexed) or 100 percent of earnings. These changes made IRA deduction eligibility nearly universal among workers from 1982 to 1986, with restrictions only for workers earning less than $2,000 annually. As a result, **the number of taxpayers claiming an IRA deduction rose from 3.4 million in 1981 (the year prior to the effective date of ERTA) to 12.0 million in 1982. By 1985, a record 16.2 million taxpayers, or 15.9 percent of all returns, claimed IRA deductions totaling $38.2 billion** (chart 1).

IRA Deductions—The Tax Reform Act of 1986 (TRA '86) (effective in 1987) restricted IRA deductions for taxpayers with employer-sponsored qualified retirement plan coverage and income over certain unindexed

Chart 1
Use of the IRA Deduction Responds to Eligibility Laws



Source: U.S. Department of the Treasury, Internal Revenue Service, *Statistics of Income Bulletin* (Spring 1991).

[8]See VanDerhei, 1990, for an examination of the relationship between work force demographics and pension asset allocation.

thresholds. Specifically, the maximum allowed IRA deduction—$2,000 per worker—is phased out evenly for single workers with adjusted gross incomes (AGIs) of $25,000–$35,000 and for married couples filing jointly with AGIs of $40,000–$50,000. These restrictions apply to joint filers if either spouse is covered by a pension. (Married individuals filing separately are not affected by their spouse's pension coverage. However, if they are covered by a pension plan, their IRA deduction eligibility is phased out between AGIs of $0 and $10,000.) Workers who are not eligible for the full IRA deduction are permitted to make nondeductible contributions. Combined deductible and nondeductible contributions generally must not exceed the lesser of $2,000 (unindexed) or 100 percent of earnings.

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Among all workers whose spouses also work, the proportion eligible for the full IRA deduction declined from 53 percent in 1987 to 45 percent in 1991; it is expected to drop to 38 percent in 1995.

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In 1987, the number of taxpayers reporting an IRA deduction dropped to 7.3 million (7 percent of all returns), with $14.1 billion in deductions. In 1988, the number of taxpayers reporting an IRA deduction fell again to 6.4 million (6 percent of all returns) with $11.9 billion in deductions (U.S. Department of the Treasury, 1991) (chart 1).

Because the TRA '86 income thresholds are not indexed for inflation or income growth, between 1987 and 1991 the proportion of lower- and middle-income workers who were eligible declined, while the proportion of higher-income workers who were eligible remained nearly the same. This trend is expected to continue through 1995. Among workers aged 21–64 with AGIs of less than $30,000 (in constant 1991 dollars), the proportion eligible for a $2,000 deduction declined from 90 percent in 1987 to 86 percent in 1991; it is expected to fall to 83 percent in 1995. Workers with AGIs of $30,000–$49,999 are facing the sharpest decline in eligibility, from 75 percent in 1987 to 55 percent in 1991 to an estimated 43 percent in 1995. Among workers with higher AGIs, between 20 percent and 22 percent remained eligible from 1987 to 1991, and the number is expected to remain in that range through 1995.

Two-earner couples have been disproportionately affected by the TRA '86 IRA deduction restrictions in part because the presence of two workers increases the likelihood of coverage under an employer-sponsored pension plan. Moreover, many two-earner couples' combined earnings and other income already exceeds the TRA '86 thresholds. Given expected inflation and income growth, more two-earner couples will become ineligible in the near future as more of their incomes surpass these thresholds. **Among all workers whose spouses also work, the proportion eligible for the full IRA deduction declined from 53 percent in 1987 to 45 percent in 1991; it is expected to drop to 38 percent in 1995.**

Even for those who are unable to make deductible contributions to IRAs, the vehicles are still tax effective because the interest on the assets remains untaxed until distribution—unlike the interest earned in a regular savings account.

Keogh Plans—The self-employed can save through IRAs but not through typical corporate retirement plans. Instead, unincorporated self-employed individuals can establish Keogh plans, named after Rep. Eugene J. Keogh of New York, who sponsored legislation that created the plans in the early 1960s. Although when they were first established Keogh plans were more restrictive than corporate retirement plans and had lower contribution and benefit limits, the current rules essentially parallel those for corporate plans.

Few self-employed persons take advantage of Keogh plans. **In 1989, 826,969 unincorporated self-employed persons contributed $6.3 billion in deductions to Keoghs** (U.S. Department of the Treasury, 1991), **less than 12.5 percent of all self-employed workers** (U.S. Department of Health and Human Services, 1991). Amounts contributed to Keoghs are, on average, larger on a per return basis than those contributed to IRAs, reflecting the higher individual Keogh plan limits. In 1989, the average amount deducted on income tax returns was $1,863 for IRA contributions and $7,677 for Keogh contributions. Analysis of earlier data suggests that the workers who are most likely to take advantage of the available tax incentives are older workers or people who have been self-employed for many years (Andrews, 1985).

IRA and Keogh Plans Assets—**Between 1985 and 1990, total assets held in IRAs and Keogh plans grew from $230.4 billion to nearly $564 billion—representing almost 20 percent of assets in all private and public pension funds** (table 6). Assets in these accounts have grown substantially every year since 1981, when they totaled $39 billion. During 1990, assets held in these accounts grew 12.4 percent, compared with an average annual growth of 20 percent between 1985 and 1990. Annual asset growth was much higher in the early 1980s before the enactment of TRA '86.

In 1990, just under 50 percent of IRA and Keogh assets were invested with commercial banks and mutual funds. Brokerage self-directed accounts and savings and loans held 18.5 percent and 14.5 percent of all assets, respectively (table 6). The amount of IRA and Keogh assets invested in savings and loans fell from $85.3 billion in 1989 to $81.8 billion in 1990—a decrease of 4.3 percent.

8. How many workers participate in 401(k) plans?

Section 401(k) of the Internal Revenue Code permits employers to structure defined contribution plans to allow employees to elect to have a portion of their compensation contributed to a qualified pension or profit-sharing plan on a before-tax basis. Employers sometimes match all or a portion of the employee's contribution. These cash or deferred arrangement (CODA) plans, commonly referred to as 401(k) plans,

Table 6
IRA and Keogh Assets

Assets in IRA and Keogh Accounts and Distribution by Financial Institution, 1981–1990

Financial Institution	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
					($ billions)					
Total Assets	$38.6	$68.0	$113.0	$163.1	$230.4	$304.9	$366.2	$426.8	$501.7	$563.9
					(percentage of market)					
Commercial Banks	21.0%	25.7%	26.5%	27.3%	26.3%	23.8%	22.6%	22.0%	21.7%	23.1%
Savings and Loans	32.9	27.6	25.1	24.5	22.9	20.8	19.2	18.5	17.0	14.5
Mutual Savings Banks	12.4	9.1	7.7	7.1	5.1	4.9	4.2	4.9	4.6	4.2
Mutual Funds	16.1	16.0	14.9	14.3	17.1	20.8	22.5	22.7	24.9	25.3
Credit Unions[a]	0.5	2.4	4.3	5.3	6.0	6.4	6.1	5.7	5.2	5.1
Life Insurance	15.8	12.6	10.7	9.7	8.8	8.6	9.3	10.3	10.4	9.2
Stock Brokerage Self-Directed Accounts[a]	1.3	6.5	10.7	11.7	13.8	14.7	16.1	15.9	16.3	18.5

Source: Employee Benefit Research Institute, tabulations of data collected from the *Federal Reserve Board Weekly Statistical Release*, the Federal Home Loan Bank Board, the National Council of Savings Institutions, the Investment Company Institute, the Credit Union National Association, the American Council of Life Insurance, and *The IRA Reporter*.
[a]Figures represent IRA assets only.

formally qualified for favorable tax treatment in the Revenue Act of 1978 (U.S. General Accounting Office, 1988). As with other qualified plans, the employer contribution, and the employee's pretax contribution (below legal limits) are not treated as taxable income until money is withdrawn. **In 1988, more than 27.5 million workers were covered by 401(k) plans (24.2 percent of all workers), and nearly 16 million workers (13.8 percent of all workers) were participating in them.**[9]

Participation by Earnings—There are several employment variables associated with CODA eligibility and participation. Eligibility for a CODA plan and participation are higher among workers with higher earnings. In 1988, 4.2 percent of workers earning less than $5,000 reported CODA plan eligibility compared with 56.5 percent of workers with annual earnings greater than $50,000. Similarly, fewer than 1 percent of workers earning less than $5,000 reported participating in a CODA plan, while 45.1 percent of workers earning $50,000 or more reported doing so (table 7).

Participation by Industry—Industry is also associated with differing levels of CODA eligibility and participation. Federal government wage and salary workers reported the highest percentage (57.7 percent) of CODA plan eligibility. Participation in CODA plans was lowest among the self-employed and agricultural workers and highest among workers in the communications and utilities industry (37.7 percent) (table 7).

Participation by Union Status and Firm Size—Other factors associated with CODA eligibility and participation are union status and firm size, with 35.3 percent of unionized workers and 41.5 percent of workers employed by firms with 250 or more employees eligible. Likewise, unionized workers were more likely to report CODA participation (19.0 percent), and a greater percentage of workers employed by firms with 250 or more employees reported participating in a CODA plan in 1988 (23.3 percent) (table 7).

[9]Based on EBRI tabulations of the May 1988 Current Population Survey (CPS), employee benefits supplement. CPS is a monthly survey conducted by the U.S. Bureau of the Census by interviewing approximately 58,000 households. The survey gathers data on the civilian noninstitutionalized population of the United States. The May supplement specifically addresses employer-sponsored benefits among civilian workers.

◆ Health Benefits

9. *How many individuals have health insurance in the United States? How many don't? What is the uninsured's relationship to the work force, and what are some of their demographic characteristics?*

In 1989, almost 180 million persons under age 65 had health insurance coverage, while 34.4 million people —or about 16 percent of the nonelderly population— received neither private health insurance nor publicly financed health coverage. Most of the uninsured were working adults 54.6 percent), while the remainder were nonworking adults (16.7 percent) or children (28.7 percent) (table 8).

Employment Status—In 1989, more than 85 percent of the uninsured were either working or living in a family headed by a worker. Findings from the March 1990 CPS demonstrate that workers not covered directly by their employers' plans were often covered by their spouses' plans or other insurance. Although some of the uninsured were in families whose head of household experienced unemployment during the year, more than 60 percent were in families in which the family head was employed either full or part time throughout the year. **The majority (54 percent) of the uninsured were either employed full time year round or dependents of such workers.** However, of all steadily employed full-time workers and their dependents only 12 percent were uninsured during 1989. Fifty-eight percent of all uninsured workers usually worked at least 35 hours per week.

Generally, part-time workers and their dependents were more likely to be uninsured than their full-time counterparts. Among part-time workers, families of those

Table 7
Distribution of Civilian Workers Aged 16 or over Who Are Covered by a 401(k) Plan and Who Participate in a 401(k) Plan, by Earnings Level, Industry, Union Status, and Firm Size, May 1988

Worker Characteristics	Total	401(k) Coverage	401(k) Participation
Total	113,720	24.2%	13.8%
Earnings			
$1–$4,999	10,028	4.2	0.9
$5,000–$9,999	13,502	10.4	3.4
$10,000–$14,999	16,966	18.9	7.9
$15,000–$19,999	14,700	28.1	14.2
$20,000–$24,999	12,417	35.3	20.0
$25,000–$29,999	8,875	40.9	23.9
$30,000–$49,999	14,377	49.3	33.0
$50,000 +	4,133	56.5	45.1
Industry			
Self-employed	10,273	b	b
Private wage and salary	86,341	24.1	14.3
agriculture	1,649	6.2	b
manufacturing (total)	21,211	34.9	21.2
durable goods	12,236	38.2	22.7
nondurable goods	8,975	30.4	19.2
trade (total)	21,123	14.0	7.9
wholesale	4,109	24.6	16.4
retail	17,015	11.4	5.9
services (total)	22,833	19.1	9.6
professional	13,324	23.6	11.2
business and personal	9,509	12.8	7.3
transportation	3,276	20.2	12.6
communications and utilities	2,760	55.5	37.7
construction	5,591	10.4	7.7
finance, insurance, and real estate	7,186	41.0	25.6
mining	712	39.5	27.9
Public wage and salary	17,106	38.7	19.3
federal government	3,250	57.7	24.3
state and local government	13,856	34.2	18.1
Union Status			
Union	19,440	35.3	19.0
Nonunion	94,281	21.9	12.7
Firm Size			
Under 10	14,561	2.9	2.1
10–24	8,358	8.0	5.6
25–49	6,883	14.1	7.7
50–99	5,654	18.0	10.9
100–249	7,533	22.9	13.4
250 +	51,441	41.5	23.3

Source: Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement.
[a]For a worker with a primary wage and salary job, a 401(k) is considered to be primary if it is reported to be the primary plan at that primary job. For a worker with a self-employed primary job, a 401(k) is considered to be primary only if it is reported to be the primary plan at the worker's secondary wage and salary job and the worker did not contribute to a Keogh for tax year 1987.
[b]Sample too small to be statistically reliable.

employed fewer than 17 hours per week were more likely to be insured (77 percent) than families of those working 17 to 34 hours per week (69 percent). The reason for this difference may be that publicly financed health coverage is less available to the latter group. Nonworkers were more likely to be uninsured than all other working groups—nearly 17 percent did not have any health insurance in 1989 (table 8).

Income—The uninsured are concentrated disproportionately in low-income families. **In 1989, nearly 60 percent of the uninsured were in families with annual incomes under $20,000** (table 8). As income increases, the percentage of the population without health insurance and the percentage covered by publicly financed programs decrease, while the percentage covered by private health insurance increases.

10. How much does the United States spend annually on health care, and what are the different types of expenditures? What percentage of Gross National Product (GNP) goes toward health expenditures?

According to the U.S. Health Care Financing Administration (HCFA), U.S. expenditures on health care totaled $666.2 billion in 1990, up from $602.8 billion in 1989, a nominal increase of 10.5 percent (table 9). Health care spending accounted for 12.2 percent of GNP in 1990. Health spending has continued to outgrow the other economic sectors combined and currently amounts to more than twice the proportion of GNP that it accounted for in 1965 (5.9 percent).

Public expenditures—**In 1990, total government expenditures on health care were $282.6 billion, or 42 percent of national health expenditures** (table 9). The federal government spent $195.4 billion (29 percent of total expenditures) on health care, while state and local governments contributed $87.3 billion (13 percent). Federal government expenditures accounted for only 12 percent of total health expenditures in 1965 (the year prior to the implementation of the Medicare program). The proportion of national health expenditures accounted for by public sources has remained essentially constant since the early 1970s.

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Private expenditures totaled $383.6 billion (58 percent of health spending) in 1990.

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Private Expenditures—**Private expenditures totaled $383.6 billion (58 percent of health spending) in 1990** (table 9). Payments through insurance companies of nearly $216.8 billion in 1990 accounted for the largest portion of private expenditures for health care. Direct out-of-pocket payments for health care amounted to $136.1 billion (table 9). Out-of-pocket payments declined from 34 percent of total expenditures in 1970 to 20 percent in 1990, and private insurance payments increased from 23 percent to 33 percent of total health expenditures over the same period.

Types of Expenditures—In 1990, nearly all (97 percent) of health care spending was allocated to health services and supplies, with research and construction expenses accounting for the remaining 3 percent. Personal health care spending, including all goods and services received directly by patients, amounted to $585.3 billion—the largest component of health services and supplies. Hospital care is the single greatest personal health care expense, representing $256.0 billion in 1990, a 10 percent increase over 1989. Physicians' services, the next largest component of personal health care, accounted for $125.7 billion in 1990, an 11 percent increase over 1989 (table 9). Together, these two components account for nearly 60 percent of total national health spending.

Other components of personal health care include nursing home care (8 percent of total national health spending), drugs and other medical nondurables (8 percent), dental services (5 percent), care delivered

Table 8
Nonelderly Population with Selected Sources of Health Insurance, by Selected Demographic Characteristics

Status	Total	Total Private	Employer Coverage: Total	Employer Coverage: Direct	Employer Coverage: Indirect	Total Public	Medicaid	No Health Insurance Coverage
			(in millions)					
Total	213.7	160.4	140.8	71.2	69.6	26.2	18.5	34.4
Own Work Status								
Family head worker[a]	74.9	60.9	54.6	51.2	3.4	4.3	2.1	11.6
Other workers[b]	48.1	39.8	35.0	17.7	17.3	2.3	0.9	7.2
Nonworkers	27.5	15.2	11.7	2.2	9.5	8.4	5.4	5.7
Children	63.2	44.4	39.4	0.1	39.4	11.2	10.1	9.9
Family Head Work Status								
Full year, no unemployment	165.4	139.6	125.9	62.8	63.1	9.1	4.5	21.5
full time	155.7	133.7	121.9	60.6	61.3	7.7	3.6	18.7
part time	9.7	6.0	4.0	2.2	1.8	1.4	0.9	2.8
Full year, some unemployment	15.6	8.8	7.5	3.8	3.6	2.6	2.1	4.8
Part year	10.3	5.1	3.4	1.8	1.5	2.7	2.2	3.1
Nonworker	22.4	6.9	4.1	2.7	1.4	11.8	9.7	5.0
Family Income								
Under $5,000	12.6	2.3	0.9	0.5	0.4	5.9	5.6	4.7
$5,000–$9,999	14.8	4.1	2.4	1.5	0.9	6.4	5.7	5.0
$10,000–$14,999	16.5	8.0	5.9	3.7	2.2	3.7	3.0	5.6
$15,000–$19,999	16.9	10.8	8.8	5.1	3.7	2.3	1.6	4.6
$20,000–$29,999	33.8	26.4	23.1	12.1	11.0	2.6	1.4	5.9
$30,000–$39,999	32.0	18.2	25.5	12.3	13.2	1.7	0.5	3.2
$40,000–$49,999	26.0	23.7	22.0	10.3	11.6	1.2	0.3	1.9
$50,000 and over	61.0	57.0	52.3	25.7	26.6	2.4	0.5	3.3

(continued)

by health professionals other than physicians and dentists (5 percent), vision products and other medical durables (2 percent), and home health care (1 percent).[10]

Spending on drugs and dental services continued to grow more slowly than overall health expenditures in 1990. Spending for home health services and health services provided by professionals other than physicians and dentists has increased considerably over the past 20 years; however, these services are relatively small components of the total U.S. health bill.

11. How much do employers and employees each spend on group health insurance?

The average cost per employee of a group health insurance plan was $3,217 in 1990, up from $2,748 in 1989 (A. Foster Higgins & Co., Inc., 1990b, 1991). **This amounts to a 17.1 percent increase in average plan cost between 1989 and 1990.**

[10]HCFA defines home health care as care provided by Medicare-certified, nonfacility-based home health agencies (HHAs) and people delivering home health services financed by Medicaid. It does not include services furnished by facility-based HHAs. A broader home health care industry definition (not included in this figure) includes supportive social services, respite care, and adult day care.

Table 8 (continued)

Status	Total	Total Private	Employer Coverage Total	Employer Coverage Direct	Employer Coverage Indirect	Total Public	Medicaid	No Health Insurance Coverage
	(percentage within coverage categories)							
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Own Work Status								
Family head worker[a]	35.1	38.0	38.8	71.9	4.9	16.5	11.6	33.7
Other workers[b]	22.5	24.8	24.8	24.8	24.8	8.6	4.8	20.9
Nonworkers	12.9	9.5	8.3	3.2	13.6	32.0	29.4	16.7
Children	29.6	27.7	28.0	0.1	56.6	42.9	54.3	28.7
Family Head Work Status								
Full year, no unemployment	77.4	87.1	89.4	88.2	90.6	34.7	24.2	62.5
full time	72.9	83.3	86.6	85.1	88.1	29.5	19.3	54.4
part time	4.5	3.7	2.8	3.1	2.6	5.2	4.9	8.1
Full year, some unemployment	7.3	5.5	5.3	5.4	5.2	9.9	11.4	14.1
Part year	4.8	3.2	2.4	2.6	2.2	10.4	11.9	9.0
Nonworker	10.5	4.3	2.9	3.8	2.0	45.0	52.5	14.5
Family Income								
Under $5,000	5.9	1.4	0.6	0.6	0.6	22.7	30.3	13.7
$5,000–$9,999	6.9	2.5	1.7	2.1	1.2	24.4	30.7	14.6
$10,000–$14,999	7.7	5.0	4.2	5.1	3.2	14.1	16.0	16.4
$15,000–$19,999	7.9	6.7	6.3	7.2	5.3	8.7	8.4	13.4
$20,000–$29,999	15.8	16.5	16.4	17.0	15.8	10.0	7.4	17.3
$30,000–$39,999	15.0	11.3	18.1	17.3	19.0	6.3	2.6	9.4
$40,000–$49,999	12.1	14.8	15.6	14.5	16.7	4.7	1.8	5.4
$50,000 and over	28.6	35.6	37.1	36.1	38.2	9.1	2.8	9.7

Source: Employee Benefit Research Institute analysis of the March 1990 Current Population Survey.
[a]Family head refers to the family member with the highest reported earnings in 1989. In families of nonworkers, the family head is the family member with the highest reported income.
[b]Includes workers in the family who are not considered the family head. These workers can be full-year, full-time workers or other workers.

As employer contributions to health care rise, it appears that some employers have reduced their costs by requiring employees to contribute to individual and/or family health insurance premiums. **Among participants in medium and large group health plans, the proportion required to contribute to premiums for individual coverage increased from 26 percent in 1980 to 45 percent in 1989,** and the proportion required to contribute to family coverage increased from 46 percent to 64 percent over the same period, with average monthly premiums of $26.32 and $71.41 for employee coverage and family coverage, respectively (U.S. Department of Labor, 1990).

Some employers may be controlling their outlays for group health insurance by eliminating it as a benefit for some or all employees. The proportion of full-time employees of medium and large establishments who received employer-sponsored health insurance as an employee benefit declined from 97 percent in 1980 to

Table 9
National Health Expenditures, by Source of Payment and Type of Expenditure and as a Percentage of Gross National Product, Selected Years, 1965–1990

	1965	1970	1975	1980	1985	1989	1990
Source of Payment				($ billions)			
Total	$41.6	$74.4	$132.9	$250.1	$422.6	$602.8	$666.2
Total Private	31.3	46.7	77.8	145.0	247.9	350.2	383.6
Total consumer	29.0	42.3	71.5	132.9	228.5	322.5	352.9
out-of-pocket	19.0	25.6	38.5	59.5	94.4	126.1	136.1
private insurance	10.0	16.7	32.9	73.4	134.1	196.4	216.8
Other private[a]	2.3	4.4	6.3	12.1	19.4	27.7	30.6
Total Government	10.3	27.7	55.1	105.2	174.8	252.6	282.6
Federal	4.8	17.7	36.4	72.0	123.6	175.0	195.4
State/local	5.5	9.9	18.7	33.2	51.2	77.6	87.3
Type of Expenditure				($ billions)			
Total	$41.6	$74.4	$132.9	$250.1	$422.6	$602.8	$666.2
Health services and supplies	38.2	69.1	124.7	238.8	407.4	582.1	643.4
personal health care	35.6	64.9	116.6	219.5	369.8	529.9	585.3
hospital care	14.0	27.9	52.4	102.4	148.6	232.6	256.0
physicians' services	8.2	13.6	23.3	41.9	43.9	113.6	125.7
drugs and other medical nondurables	5.9	8.8	13.0	21.6	36.1	50.6	54.6
other personal health care[a]	7.5	14.6	27.8	53.5	91.5	133.1	149.0
program admin./net cost of private health insurance	1.9	2.8	5.1	12.2	25.2	33.9	38.7
government public health activities	0.6	1.4	3.0	7.3	12.4	18.3	19.3
Research/construction	3.5	5.3	8.3	11.3	15.3	20.7	22.8
research	1.5	2.0	3.3	5.4	7.9	11.0	12.4
construction	1.9	3.4	5.0	5.9	7.7	9.6	10.4
Type of Expenditure (distribution)				(percentage)			
Total	100%	100%	100%	100%	100%	100%	100%
Health services and supplies	92	93	94	96	96	97	97
personal health care	86	87	88	88	87	88	88
hospital care	34	38	39	41	40	39	38
physicians' services	20	18	18	17	18	19	19
drugs and other medical nondurables	14	12	10	8	8	8	8
other personal health care[a]	18	20	21	22	22	22	22
program admin./net cost of private health insurance	5	4	4	5	6	6	6
government public health activities	1	2	2	3	3	3	3
Research/construction	8	7	6	5	4	3	3
research	4	3	3	2	2	2	2
construction	5	5	4	2	2	2	2
Percentage of Gross National Product	5.9%	7.3%	8.3%	9.2%	10.5%	11.6%	12.2%

Source: Lazenby, Helen C., and Suzanne W. Letsch, "National Health Expenditures, 1989," *Health Care Financing Review* (Winter 1990): 1–26.
Note: Numbers may not total due to rounding.
[a]Includes dentists' services, other professional services, home health care, vision products and other medical durables, nursing home care, and other health services.

92 percent in 1989 (U.S. Department of Labor, 1990).[11] Likewise, employers may eliminate coverage for dependents of employees: according to the same survey, in 1989, 92 percent of participants in employer-sponsored health plans received family coverage, compared with 97 percent in 1984.

12. What initiatives have employers and insurers undertaken to reduce health care costs?

Employers and insurers continue to implement cost containment initiatives in an effort to manage health care costs. These initiatives include alternative delivery systems such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs), utilization review (UR), employee deductibles, and coinsurance.

HMOs—HMOs give providers financial incentives to provide cost effective care and are therefore generally identified with cost containment. **As of July 1, 1990, there were 556 HMOs, with an enrollment of 33.6 million members** (InterStudy, 1991). Employers are cutting back on the number of HMO options they offer and negotiating harder for rate cuts by pressing for increased experience rating (group rates based on actual historical claims experience from the group itself). According to the Bureau of Labor Statistics, HMO enrollment among employees with employer-sponsored health plans grew steadily from 2 percent in 1980 to 19 percent in 1988 and fell slightly to 17 percent in 1989 (U.S. Department of Labor, 1989, 1990).

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PPOs appear to be gaining popularity: in 1989, 10 percent of participants in medium and large employer health plans were enrolled in PPOs, compared with only 1 percent in 1986.

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PPOs—PPOs are a relatively new type of health care delivery network in which an organization, generally an insurer, contracts with a network of doctors, hospitals, and other health care providers to provide services at a discounted price schedule. Providers enter these agreements hoping to generate a higher volume of business. PPOs may be offered on a stand-alone basis or as an option within a traditional indemnity plan. In the latter case, insurers usually encourage participants to use the preferred providers by waiving deductibles or offering more attractive coinsurance provisions. **PPOs appear to be gaining popularity: in 1989, 10 percent of participants in medium and large employer health plans were enrolled in PPOs, compared with only 1 percent in 1986** (U.S. Department of Labor, 1990).[12]

UR—UR is a process of systematically reviewing care to determine its necessity and appropriateness. There are, in general, three types of UR: preadmission certification, in which the appropriateness of an inpatient stay is evaluated prospectively; concurrent review, which examines care as it is provided; and retrospective review, which reviews care already given. **UR represents the introduction of an informed buyer into the**

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[11]See U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1988* (Washington, DC: U.S. Government Printing Office, 1989). The BLS survey represents U.S. private-sector establishments employing at least 50, 100, or 250 workers, depending on the industry, and includes a broad representation of industries. The 1988 BLS survey represented a significant expansion in the survey coverage over previous years and, specifically, included more establishments with 100 to 250 employees (smaller establishments). The original survey data were representative of approximately 21 million full-time employees in a cross-section of private industries. The expanded survey (beginning in 1988) provides representative data for 31 million full-time employees. Because of the change in survey scope, the BLS published "old-scope" data from the 1988 survey as well as data representing the expanded survey. For purposes of comparison, measurements used in the older survey will be used for 1988 except as noted.

[12]Data are not strictly comparable due to the expanded scope of the 1988 and subsequent surveys; growth in PPO participation may be slightly understated.

health care services transaction. In 1990, 93 percent of employers used some type of UR to monitor health care costs (A. Foster Higgins & Co., Inc., 1991).

Deductibles and Coinsurance—Employers have also introduced deductibles (amount participants must pay for particular health care services before being covered by their health plan) and coinsurance (copayments participants contribute for medical fees) to curb increases in the costs of providing their employees health care coverage. In 1990, 97 percent of employer-sponsored medical indemnity plans required employee deductibles, with 60 percent of employers requiring a $150 deductible; 94 percent of employers required coinsurance for physician visits (A. Foster Higgins & Co., Inc., 1991).

13. How many employees will receive employer-based postemployment health benefits?

In 1988, 42.8 percent of public- and private-sector workers aged 40 and over had retiree health coverage through their own or their spouse's current or former employer (table 10).[13] In 1989, 41 percent of employees of medium and large private employers with group health insurance coverage had employer-sponsored retiree health coverage before age 65, and 36 percent had such coverage at age 65 (table 11). Financing for retiree health coverage came from both employers and employees. For those under age 65, 52 percent were covered by plans in which the retiree was responsible for contributing to the coverage. Among those aged 65 and over, 50 percent were responsible for contributing to the coverage (table 11).

Employer-provided retiree health coverage differs by gender (table 10). While 13.1 percent of all workers aged 40 and over receive coverage through their current employer, 23.4 percent of men aged 40 and over fall in this category, compared with 10.4 percent of women aged 40 and over. Again, although almost 12 percent of all workers aged 40 and over work and receive retiree health coverage through a spouse's plan, only 5 percent of men are in this category, compared with 17.3 percent of women. Similar patterns are evident among those who receive coverage from a past employer.

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EBRI estimates that the present value of private employers' liabilities for current retiree health insurance obligations was approximately $241 billion in 1988.

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Retiree health coverage also differs by family income. Among individuals aged 40 and over with an annual income of less than $15,000, 4 percent have direct coverage from a current employer that will continue in retirement, 11 percent have direct coverage from a former employer, and 78 percent have no retiree health coverage. In comparison, 23 percent of individuals aged 40 and over with an annual income of $40,000 or more have direct health coverage from a current employer that will continue in retirement, 14 percent have direct coverage from a former employer, and 40 percent have no retiree health coverage (table 10).

14. How are employers responding to new accounting rules for retiree health benefit liabilities?

The projected impact of the retiree health accounting standard issued by the Financial Accounting Standards Board, FAS 106, has been widely studied. Companies that sponsor retiree health plans will have higher expenditures under the new standard than they have under the current pay-as-you-go system and will be

[13]All EBRI tabulations of the August 1988 Current Population Survey are for the civilian noninstitutional population of the United States living in households.

required to record unfunded liabilities on their balance sheets. Analysts expect employers offering retiree health benefits to record significant liabilities on their balance sheets, thereby increasing the amount of debt compared to equity, a commonly watched ratio (Coopers and Lybrand, 1989).[15] **EBRI estimates that the present value of private employers' liabilities for current retiree health insurance obligations was approximately $241 billion in 1988.** Employers will be required to recognize this amount in their financial statements with the adoption of FAS 106. The General Accounting Office (GAO) estimates corporate earned

[15] As a result, this change in the debt-equity ratio may affect the covenants on current or future debt, resulting in higher interest rates or lower amounts of debt allowed. This secondary effect is difficult to estimate.

Table 10
Retiree Health Coverage

Number and Percentage of Individuals Aged 40 and Over with Employer-Sponsored Retiree Health Coverage, by Work Status, Sex, and Family Income, August 1988

		Retiree Health Coverage				
		Current employer[a]		Former employer		
Work Status, Sex, and Family Income	Total	direct	indirect	direct	indirect	No Retiree Health Coverage
			(number in millions)			
Total	90.0	11.8	10.5	13.2	2.9	51.5
Work Status						
Working[b]	42.9	11.8	4.8	3.5	0.8	22.0
Retired	23.8	d	1.2	7.8	0.7	14.1
Other[c]	23.3	d	4.5	1.9	1.4	15.4
Sex						
Male	41.3	9.6	2.1	7.1	0.5	21.9
Female	48.7	5.1	8.4	3.2	2.5	29.5
			(percentage)			
Total	100.0%	13.1%	11.7%	14.7%	3.3%	57.2%
Work Status						
Working[b]	100.0	27.5	11.2	8.2	1.9	51.3
Retired	100.0	d	4.9	32.8	2.9	59.3
Other[c]	100.0	d	19.5	8.3	6.2	66.0
Sex						
Male	100.0	23.4	5.0	17.3	1.2	53.1
Female	100.0	10.4	17.3	6.6	5.0	60.6
Family Income						
Under $15,000	100.0	3.9	3.7	10.9	3.2	78.3
$15,000–$39,999	100.0	11.1	9.7	17.5	3.8	57.9
$40,000 and over	100.0	23.2	20.7	13.8	2.6	39.7

Source: Employee Benefit Research Institute tabulations of the August 1988 Current Population Survey.
[a] Respondents currently receive employer-sponsored health coverage that continues in retirement.
[b] Includes current workers as well as those who reported that they were looking for work and those who had a job but were not working during the week prior to the survey.
[c] Includes students, individuals who were unable to work, and homemakers.
[d] Not applicable.

Table 11

Medical Care Benefits[a]: Percentage of Full-Time Participants, by Provision for Benefits after Retirement, Medium and Large Firms, 1989

Characteristic	All Participants		Professional and Administrative Participants		Technical and Clerical Participants		Production and Service Participants	
	Under 65[b]	65+	Under 65[b]	65+	Under 65[b]	65+	Under 65[b]	65+
Percentage of Participants with Employer-Financed Retiree Coverage[c]	41%	36%	45%	41%	39%	37%	39%	33%
Benefit Level[d]								
Total	100	100	100	100	100	100	100	100
No change in coverage	79	72	84	76	82	76	75	67
Reduced coverage	15	21	11	17	11	16	20	26
Increased coverage	e	1	e	1	e	1	e	1
Not determinable	6	6	5	5	g	7	5	6
Eligibility for Retiree Coverage								
Total	100	100	100	100	100	100	100	100
All retirees eligible	39	37	41	40	41	40	37	34
Eligibility subject to service requirement	29	26	28	26	31	29	28	25
Must qualify for company pension	26	30	24	28	21	24	29	34
Other	1	1	1	1	2	2	1	1
Eligibility data not available	6	6	5	5	5	6	6	7
Financing								
Total	100	100	100	100	100	100	100	100
Retiree pays some cost	52	50	56	55	57	55	46	44
Retiree pays no cost	45	47	41	42	40	42	50	52
Not determinable	3	3	2	3	3	3	3	4

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1989* (Washington, DC: U.S. Government Printing Office, 1990).

[a]Plans providing services or payments for services rendered in the hospital or by a physician. Excludes plans that provided only dental, vision, or prescription drug coverage.

[b]Provisions in this column apply to the period between retirement and age 65.

[c]Tabulations cover plans in which insurance was continued for longer than one month after retirement and in which the employer wholly or partly financed the coverage. They exclude plans that provide only the retiree's share of premiums for medical insurance under Medicare Part B.

[d]For retirees eligible for Medicare, benefits may be calculated and reduced by the extent to which covered expenses are reimbursed by the federal program.

[e]Less than 0.5 percent.

liabilities at $217 billion, and the liabilities expected to be incurred in the future by current employees at $175 billion, for a total of $402 billion in 1988.[15]

A study by Hewitt Associates of 463 medium and large private employers found that the median annual

[15]The difference between the EBRI and the GAO numbers for current liabilities is due in part to different assumptions about health care inflation. EBRI assumes that health care cost inflation will continue to exceed general inflation but that the difference between the rates will gradually decline over the next 25 years, converging at 3.5 percent in 2013. GAO assumes that health care cost inflation will exceed general inflation by 3.5 percentage points from 1988–2001, by 2.75 percentage points from 2002–2015, and then by 2 percentage points in 2016 and thereafter.

medical cost for retirees is 1.1 percent of active payroll; this is expected to increase to 6.25 percent of payroll after FAS 106 is fully adopted (Hewitt Associates, 1990). Respondents to a survey of 97 large employers conducted by Towers, Perrin, Forster & Crosby Inc. said that FAS 106 would reduce their pretax earnings by 10 percent, on average. However, there were substantial differences among companies. By one estimate, some companies' annual net income may decrease between 30 percent and 60 percent (Integrated Administrative Services, 1990).

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A recent survey of 1,100 companies that offer retiree health benefits showed that nearly one-half had changed or planned to change their plans as a result of FAS 106.

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Some analysts believe that the market has already taken these liabilities into account, and their disclosure on the financial statements will not significantly affect stock market prices.

An April 1989 study by Johns Hopkins University and the Health Insurance Association of America interviewed 200 financial officers of companies that offered retiree health coverage.[16] Of those responding, 58 percent believed that FAS 106 would lower profits, while only 19 percent thought it would lower stock prices (Bacon, Kasper, de Lissovoy et al., 1990).

Considering the magnitude of these retiree health liabilities, including them on financial statements is unappealing to some companies. Even among companies that advance fund retiree health obligations, very few have fully funded the obligations. Employers offering retiree health coverage may begin reviewing various retiree health plan designs.

Changes to Plan Provisions—**In reaction to FAS 106 and increases in health care costs, some firms have dropped the provision of retiree health benefits for future retirees entirely, while others have no plans to change their existing plans.** Some employers may place limits on their postretirement medical benefit promises, tie the promise to length of employment, or comprehensively restructure the plan design. Overall, most companies are or will be evaluating their retiree health liabilities and deciding whether or not to change the current plan design.

A recent survey of 1,100 companies that offer retiree health benefits showed that nearly one-half had changed or planned to change their plans as a result of FAS 106. Twenty-eight percent of surveyed companies had increased employee premium contributions within the past two years or expected to do so in 1991, 18 percent had began to require deductibles, and 14 percent had decreased benefits. The survey also found that, while none of the companies had changed to a defined contribution type of plan in the past two years, 5 percent expected to make such a change by 1991 (A. Foster Higgins, 1990a).

Some companies have kept their traditional plans but are capping (or limiting) employer-provided benefits in order to reduce costs. This is often done by limiting dollar contributions toward these costs in retirement, capping the increase in the amount contributed, or requiring a long service period before employees become eligible to receive benefits. For the remaining liability, some plans are funded under certain tax codes specifically designed for this purpose, such as 401(h) or 501(c)(9).

A survey by the Wyatt Company of 312 employers providing retiree health benefits showed that

[16]On average, these plans covered 3,772 active employees and nearly 2,000 retirees aged 65 and over. The authors note that the study was done fairly soon after the release of the original exposure draft of the statement, so the respondents may not have completely investigated its full impact.

57 percent of these employers used a pay-as-you-go system in 1986, and 63 percent used this system in 1988. Of companies with a liability for retiree health benefits, the use of insurance contracts decreased from 20 percent to 15 percent during this period. However, the use of 501(c)(9) trusts increased from 15 percent to 18 percent, and the use of 401(h) plans increased slightly, from 1 percent to 2 percent. Other companies are reducing their liabilities to zero by creating a defined contribution plan that is presented to employees as an opportunity for them to set aside money to pay for health benefits in retirement.

As mentioned, some companies will continue to offer coverage but will gradually introduce cost sharing (or shifting some costs to the retirees) in order to curb future expenses.

15. What kinds of health coverages are mandated by the states, and what effect do they have on employees?

State-mandated benefit requirements prescribe the content of health insurance purchased from Blue Cross and Blue Shield and commercial insurers. There are more than 800 laws requiring insurers to include specific benefits or coverages for types of providers, services or diseases, and persons who might otherwise have difficulty in finding coverage (Crenshaw, 1990). State mandates do not extend to businesses that self-fund their health insurance plans because they are covered by ERISA, which preempts state law in employee benefit plans.

Proponents of state mandates claim that mandates help to assure a minimum level of health benefits to the insured population, encourage lower-cost health care providers within the health care delivery system, and protect chronically ill individuals by guarding against adverse selection for plans offering extensive coverage.[17] However, mandated health coverages have been found to increase health insurance premiums. Some contend that mandates discourage small employers from providing health insurance coverage, encouraging employers to self-fund their health plans if they can afford to do so (that is, predominantly large employers, who are better able to bear the risk associated with self-funding) (Gabel and Jensen, 1989).[18]

The most common state-mandated benefits as of June 1991 are treatment for alcoholism (mandated by 41 states), mammography screening (mandated by 37 states), mental health care (mandated by 29 states), treatment for drug abuse (mandated by 28 states), and maternity care (mandated by 20 states) (table 12).

◆ Other Employee Benefits

16. How prevalent are parental leave benefits?

The U.S. population and labor force have changed substantially in the latter part of the 20th century, particularly in the last 20 years. The proportion of married women in the labor force increased from 41 percent in 1970 to 57 percent in 1988 (U.S. Department of Labor, 1989). More women with children, both married and single, are also participating in the paid work force. In 1975, only 37 percent of married women with children under the age of 6 were working outside the home. By 1988, this figure had increased to 57 percent. Women in the work force whose youngest child was aged 6–17 represented 73 percent of the female work force in 1988. Overall, the number of households maintained by women increased from 21 percent in 1970 to 29 percent in 1990 (U.S. Department of Commerce, 1991).

The changing demographics of the work force have created pressure on employers to consider new "family"

[17]Some proponents of state mandates believe that if health insurers were free to sell plans covering minimal benefits, these plans would attract healthier groups, while plans with broader coverage would attract higher-risk groups, resulting in excessively high premiums for broad coverage plans.

[18]As seen earlier, coverages that are likely to provide cost-effective alternatives to medical care are being adopted by insurers and plan sponsors on their own because they do, in fact, save money.

Table 12

Ten Most Common State-Mandated Benefits, June 1991

Mandate	Number of States
Alcoholism Treatment	41
Mammography Screening	37
Mental Health Care	29
Drug Abuse Treatment	28
Maternity	20
Home Health Care	17
Well-Child Care	15
Breast Reconstruction	10
Ambulatory Surgery	9
TMJ (Temporal Mandibular Joint) Disorders	8

Source: Mary Nell Lehnhard, Testimony of the Blue Cross and Blue Shield Association on state mandates on health benefits, before the Subcommittee on Health, Committee on Ways and Means, U.S. House of Representatives, July 29, 1991.

benefits, including child care, parental leave, and flexible schedules for working parents.

Pregnancy disability leave is generally covered under employers' short-term disability insurance. It generally requires certification of disability by a physician, usually lasts from six to eight weeks, and includes some salary replacement. The Pregnancy Discrimination Act of 1978 (PDA), which covers employers with 15 or more employees, requires employers that offer disability plans to treat pregnancy and childbirth the same as any other disability with regard to benefit programs. Under PDA, if states mandate the provision of short-term disability plans, they must also include coverage for pregnancy and childbirth. States are not required to adopt such laws, however, and only four states have done so (table 13). Nine states have mandated maternity disability leave (table 13).

In addition to medical leave for disability associated with pregnancy, some employers offer parental leave, a benefit that provides time off for parents to care for newborn or adopted children. Sixteen states have mandated parental leave (including leave for adoption), and six states have mandated adoption leave (table 13). These states also have laws requiring that an employee be assigned to his or her former job or a similar job on returning from parental leave. The laws also prohibit employers from reducing the compensation or seniority of an employee who returns from leave within the legally required time. The National Conference of

Table 13

State Maternity/Parental Leave Laws[a]

State	Type	Public/Private	Duration
Arizona	maternity disability[c]	state	12 weeks
California[b]	maternity disability	all	4 months
California	parental[c]	state	1 year
Colorado	maternity disability	all	reasonable period
Colorado	adoption	all	same as biological
Connecticut	parental[c]	state[d]	24 weeks
Connecticut	parental[c]	private[d]	12 weeks
Delaware	adoption	state	6 weeks
Florida	maternity disability	state	6 months
Hawaii[b]	maternity disability	all	reasonable period
Illinois	parental[c]	state[d]	1 year
Iowa	maternity disability	all	8 weeks
Kansas	maternity disability	all	reasonable period
Kentucky	adoption	all	6 weeks
Louisiana	maternity disability	all	4 months
Maine	parental[c]	all[d]	8 weeks
Maryland	parental[c]	state[d]	12 weeks
Massachusetts	maternity [c]	all	8 weeks
Minnesota	parental[c]	all	6 weeks
Missouri	adoption	state	biological
Montana	maternity disability	all	reasonable period
New Jersey[b]	parental[c]	all[d]	12 weeks
New York[b]	adoption	all	same as biological
North Dakota	parental[c]	state[d]	4 months
Oklahoma	parental[c]	state[d]	not specified
Oregon	parental[c]	all	12 weeks
Pennsylvania	parental[c]	state	6 months
Pennsylvania	adoption	private	same as biological
Puerto Rico[b]	maternity	all	8 weeks[e]
Rhode Island[b]	parental[c]	all[d]	13 weeks
Tennessee	maternity	all	4 months
Vermont	maternity	all	12 weeks
Washington	parental[c]	all[d]	12 weeks
West Virginia	parental[c]	state[d]	12 weeks
Wisconsin	parental[c]	all[d]	6 weeks

Source: U.S. Department of Labor, Women's Bureau, *Facts on Working Women* (Washington DC: U.S. Government Printing Office).

[a]Current as of June 1990.

[b]Offers "temporary disability insurance" with partial salary replacement.

[c]Adoption included.

[d]Partial payment for leave prior to and after child's arrival.

[e]Includes family illness.

State Legislatures reports that approximately 24 states had parental and family leave bills pending in legislative sessions in early 1989 (Saltford and Heck, 1990).

In 1989, 41 percent of all full-time employees in medium and large establishments were eligible for maternity leave and 20 percent were eligible for paternity leave. Of those employees eligible for maternity leave, 35 percent were eligible for unpaid days only, compared with 2 percent who were eligible for paid maternity leave only. Professional and administrative employees were most likely to be eligible for maternity leave (44 percent) as well as for paternity leave (23 percent). Production and service employees were the least likely to be eligible for either of these benefits (table 14).

In 1989, a large majority of employees in medium and large establishments were eligible for less than 26 weeks of unpaid maternity leave. The duration of unpaid paternity leave varied greatly—6 weeks for 21 percent of these employees, 13 weeks for 15 percent, and 26 weeks for 21 percent (table 15).

A recently released BLS survey of workers in establishments with 100 or fewer employees showed that these workers are less likely than those in larger establishments to receive unpaid maternity leave as a benefit. According to the survey, 17 percent of full-time workers in small establishments were provided unpaid maternity leave. In addition, 8 percent of full-time employees in small establishments were eligible for paternity leave (U.S. Department of Labor, 1991a).

Table 14
Parental Leave
Percentage of Full-Time Employees in Medium and Large Firms, by Leave Policy, 1989

Employer Leave Policy	All Employees	Professional and Administrative Employees	Technical and Clerical Employees	Production and Service Employees
Total	100	100	100	100
Eligible for Parental Leave[a]	41	45	41	39
Eligible for Maternity Leave	41	44	41	39
Paid days only	2	2	1	2
Unpaid days only	35	37	36	34
Both paid and unpaid days	1	2	1	1
Information not available on type of days	2	3	2	2
Not Eligible for Maternity Leave	b	1	b	b
Eligible for Paternity Leave	20	23	20	19
Paid days only	1	2	1	1
Unpaid days only	18	20	17	17
Both paid and unpaid days	b	b	b	b
Information not available on type of days	1	1	1	1
Not Eligible for Paternity Leave	21	21	21	20
Not Eligible for Parental Leave	59	55	59	61

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1989* (Washington, DC: U.S. Government Printing Office, 1990).
[a]Parental leave includes plans providing maternity leave only, paternity leave only, and both maternity and paternity leave.
[b]Less than 0.5 percent.
Note: Because of rounding, sums of individual items may not equal totals.

17. *How common are flexible benefit plans, and what types of benefits are typically included?*

Flexible benefit plans, also known as cafeteria plans, allow employees some choice in their employee benefits package. Employees can select the benefits they value most and that meet their specific family or lifestyle needs and forgo benefits that are less important to them.

Established in 1978 under Internal Revenue Code (IRC) section 125[19] flexible benefit plans did not experience much growth until 1981, when regulations

[19]IRC section 125, created by the Revenue Act of 1978, formally introduced tax-qualified flexible benefits plans. These plans include all those that offer employees a choice between at least one qualified nontaxable benefit and one taxable benefit (including cash).

Table 15
Duration of Unpaid Parental Leave[a]

Percentage of Eligible Full-Time Employees in Medium and Large Firms, by Maximum Duration of Benefits, 1989

Duration	All Eligible Employees	Professional and Administrative Employees	Technical and Clerical Employees	Production and Service Employees
Unpaid Maternity Leave				
Total	100%	100%	100%	100%
Under 6 weeks	2	1	1	2
6 weeks	15	12	13	18
Over 6 weeks and under 8 weeks	b	c	b	c
8 weeks	4	5	2	5
Over 8 weeks and under 13 weeks	9	7	9	11
13 weeks	15	18	9	11
Over 13 weeks and under 26 weeks	19	18	19	21
26 weeks	20	19	22	19
Over 26 weeks and under 52 weeks	5	6	6	3
52 weeks	11	13	10	10
Over 52 weeks	b	c	c	b
Unpaid Paternity Leave				
Total	100%	100%	100%	100%
Under 6 weeks	3	5	2	3
6 weeks	21	17	21	24
8 weeks	3	3	2	4
Over 8 weeks and under 13 weeks	8	8	11	7
13 weeks	15	18	15	14
Over 13 weeks and under 26 weeks	14	14	10	15
26 weeks	21	17	21	24
Over 26 weeks and under 52 weeks	3	3	4	2
52 weeks	11	16	12	7

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1989* (Washington, DC: U.S. Government Printing Office, 1990).
[a]This table includes plans providing a fixed number of unpaid days off, regardless of whether paid days off are also provided.
[b]Less than 0.5 percent.
[c]No employees in this category.
Note: Because of rounding, sums of individual items may not equal totals.

interpreting the legislation were released. Since then, they have generated increasing attention, and many large companies have established them. **A survey of 444 organizations with flexible benefits plans in 1990 (299 service employers and 145 manufacturing companies) found that 40 percent of these companies employed between 1,000 and 4,999 workers. In addition, 67 percent of survey participants were in service-related industries.** Among survey participants, the largest component of the service industry to offer flexible benefits was the health care industry (16 percent), followed by banking (11 percent) and insurance (9 percent) (Hewitt Associates, 1991).

Among full-time employees working for medium and large private establishments in 1989, 24 percent were eligible for a cafeteria plan and or/a flexible spending account, compared with 13 percent in 1988 (table 16).

A number of factors have driven the establishment and growth of flexible benefits plans. In particular, the changing demographic profile of the work force—more women, more dual husband-and-wife wage earners, and more working families with children—has led to changing benefits needs. In traditional benefits packages, dual-earner couples may have duplicate coverage for some benefits, such as health care, and lack other benefits, such as child care or extra time off. In a flexible benefits plan, duplicate benefits may be reduced and benefit options broadened.

The rising cost of health care has also driven flexible benefits plan growth. Often a flexible benefits plan is designed to allow employees to choose certain cost-saving provisions that in turn generate extra credits the employee can use to purchase coverages otherwise not obtainable. In addition, **when flexible benefits plans are first implemented, cost control mechanisms are usually added or increased as well, shifting some costs from employer to employee.**

In a flexible benefits plan, an employer typically allocates a specified amount of money to each employee with which to buy benefits. Each type of benefit or benefit level is associated with a value, or cost. If the cost exceeds employer contributions, many plans permit employee contributions—usually pretax—to help purchase the benefit.

Flexible benefits plans typically include a variety of health options, such as indemnity plans, HMOs, and dental care; life insurance; long-term disability; and

Table 16
Percentage of Full-Time Employees Eligible for Cafeteria Plans and/or Flexible Spending Accounts (FSAs), 1988 and 1989

	All Employees		Professional and Administrative		Technical and Clerical		Production and Service	
Coverage	1988	1989	1988	1989	1988	1989	1988	1989
Total	100%	100%	100%	100%	100%	100%	100%	100%
Eligible for								
Cafeteria plans and/or FSAs	13	24	20	38	18	33	6	11
Cafeteria plans	5	9	7	14	8	15	2	3
with FSAs	4	8	7	12	7	14	1	2
FSAs								
total	12	23	20	36	17	31	5	11
stand alone	8	15	13	24	10	17	4	8

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1988, 1989* (Washington, DC: U.S. Government Printing Office, 1989, 1990).
Note: The survey covers only full-time employees in private-sector firms with 100 or more employees.

other options, including spending accounts, vacation trading, and 401(k)s (Hewitt Associates, 1991).

Flexible Spending Accounts—Another type of flexible benefits arrangement is a reimbursement account (also called a flexible spending account) that may supplement a flexible benefits plan or stand alone. Reimbursement accounts provide a way for employees to pay for expenses not covered by their existing benefit plan, such as health insurance premium contributions, deductibles, coinsurance, or other out-of-pocket expenses; or dependent care expenses. Accounts are usually funded through employee pretax contributions, which are designated prior to the plan year and withheld in equal amounts from employee paychecks. When the employee incurs an expense, he or she is reimbursed with pretax dollars. Some employers also contribute to these accounts.

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Reimbursement accounts (either freestanding or as part of flexible benefits plans) appear to be more common than flexible benefits plans alone.

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Reimbursement accounts (either freestanding or as part of flexible benefits plans) appear to be more common than flexible benefits plans alone. The U.S. Department of Labor reports that in 1989, 23 percent of full-time employees working for medium and large employers were eligible for reimbursement accounts, while 15 percent were eligible for stand-alone FSAs (table 16). Most flexible spending accounts are established independently of a cafeteria plan, but they may also be established as part of a plan. In the latter case, employers may contribute part of the flexible benefits plan credit to the reimbursement account.

There is no statutory limit on annual contributions to flexible benefits arrangements, unless an individual benefit has its own limit or the plan has an established limit. Child care, for example, has a statutory $5,000 annual limit, so the plan cannot allow more than this amount to be funded through a reimbursement account or flexible benefits plan. In practice, most employers set an upper limit. Employees must be careful when designating annual contributions, because unused portions are forfeitable at the end of the plan year. **The Hewitt Associates survey reports that in 1990 average annual employee contributions to reimbursement accounts that are part of a full flexible benefits plan averaged $594 for health care accounts and $2,696 for dependent care accounts** (Hewitt Associates, 1991). A 1989 survey by A. Foster Higgins showed an average contribution for dependent care of $2,395 and an average contribution of $670 for health care (A. Foster Higgins & Co., Inc., 1990b).

18. *What types of long-term care insurance products are available? Who offers them, and how many people have bought them?*

Among the several types of long-term care insurance products, the most common are individual policies and group association policies (table 17). Individual policies are marketed on an individual basis rather than through an employer-based or other group. Conversely, group association long-term care policies are made available to members of nonemployer-based groups or associations that typically have an elderly or near-elderly membership, such as the American Association of Retired Persons. Both types of policies are targeted at elderly or near-elderly individuals for whom the prospect of long-term care may seem imminent.

Employer-based group products are newer entrants to the long-term care insurance market and are currently less prevalent than individual and group association policies. Employer-based plans are marketed to individual employers and are typically available to the establishment's employees, their spouses, parents of employees and spouses, and to retirees on a beneficiary-

Table 17
Long-Term Care Policy Holders, Average Age and Percentage of Total, by Type of Plan, 1990

Type of Plan	Number of Policy Holders	Percentage of Total Policy Holders	Average Age of Policy Holder
	(thousands)		(years)
Total	1,906	100%	69
Individual	1,429	75	72
Group Association	315	17	69
Group Employment	133	7	43
Life Insurance Rider[a]	23	1	52
CCRC[b]	6	c	80

Source: Health Insurance Association of America, 1991 and unpublished information.
[a]Does not include accelerated death benefits
[b]Continuing Care Retirement Communities (CCRCs) merge the financing and delivery of long-term care. They can provide long-term care insurance, or long-term care itself, as well as a residence. The community is typically located in a campus-like setting that includes apartments or townhouses, a central eating and recreation facility, and a nursing facility (Friedland, 1990). As of December 1990, 6,499 individuals had purchased long-term care insurance through a CCRC.
[c]Less than 1 percent.

pay-all basis. These policies have grown significantly over the past few years but are still uncommon relative to other types of employment-based insurance. **As of year-end 1987, only two employers sponsored long-term care plans. By the end of 1990, this number had grown to 81, and an additional 51 companies were scheduled to offer long-term care plans during 1991** (Health Insurance Association of America, 1991). Employer-based long-term care insurance enrollees are younger, on average, than enrollees in individual and group association plans because many enrollees and their spouses are active workers (table 17).

19. What are other common employee benefits?

Life insurance and disability benefits in the form of sick leave, sickness and accident insurance, and long-term disability insurance also represent a portion of the 16.3 percent of total compensation that employers spend on employee benefits. In 1989, 43 percent of employees of medium and large establishments were covered by sickness and accident insurance, and 45 percent were covered by long-term disability insurance (U.S. Department of Labor, 1990) (table 18).

Life insurance plans covered 94 percent of full-time employees in medium and large establishments in 1989, and 85 percent of state and local government employees in 1987 (the most recent data available) (table 18).

Other benefits include paid leave, severance pay, transportation benefits, gifts and cash bonuses, financial and legal services, health promotion programs, and education assistance programs. In general, employees of private medium and large establishments were more likely to participate in these benefit programs than government employees (table 18).

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

Table 18
Types of Employee Benefits
Percentage of Full-Time Employees Participating[a] in Employee Benefit Programs:[b] Medium and Large Private Establishments, 1989; State and Local Governments, 1987

Employee Benefit Program	Medium and Large Private Employer Plans[a]	State and Local Government Plans[b]
Paid Leave		
Holidays	97%	81%
Vacations	97	72
Personal leave	22	38
Lunch period	10	17
Rest time	71	58
Funeral leave	84	56
Jury duty leave	90	98
Military leave	53	80
Sick leave	68	97
Insurance Programs		
Sickness and accident insurance	43	14
wholly employer financed	36	12
partly employer financed	7	2
Long-term disability insurance	45	31
wholly employer financed	35	28
partly employer financed	9	3
Life insurance	94	85
wholly employer financed	82	69
partly employer financed	12	16
accidental death and dismemberment included	76	67
Other Benefits		
Income continuation plans		
severance pay	39	6
supplemental unemployment benefits	5	1
Transportation benefits		
free or subsidized employee parking	90	73
subsidized commuting	5	5
job-related travel accident insurance	53	16
Gifts and cash bonuses		
gifts	24	c
nonproduction bonuses	27	7
Financial and legal services		
financial counseling	9	10
prepaid legal services	4	6
Health promotion programs		
in-house infirmary	36	19
wellness programs	23	c
employee assistance programs	49	c
Employer-subsidized recreation facilities	28	11
Employee discounts	54	c
Subsidized meals	23	12
Relocation allowance	36	15
Education assistance		
job related	69	53
not job related	19	15
Sabbatical leave	c	21

Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1989* (Washington, DC: U.S. Government Printing Office, 1990); and U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in State and Local Governments, 1987* (Washington, DC: U.S. Government Printing Office, 1988).
[a]Includes workers covered but not yet participating due to minimum service requirements. Does not include workers offered but not electing contributory benefits.
[b]Includes only benefits that are partly or wholly employer paid.
[c]Data unavailable.

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