Preservation and Annuitization in Retirement Saving Accounts
by Paul Yakoboski, EBRI

Introduction
Many workers are accumulating significant amounts of money in individual account retirement saving vehicles such as individual retirement accounts (IRAs), 401(k) plans, and other forms of defined contribution plans. A great deal of attention is currently being focused on the decisions that workers must make regarding their participation in these plans: first, whether to participate, and then, how much to contribute1 and how to allocate assets among the options available.2 In addition, attention is paid to the issue of benefit preservation on job change, i.e., do workers spend their account balances or do they roll them over into an IRA or a new employer’s plan or leave them in their former employer’s plan.3 Little attention has been focused to date on the decisions that workers make regarding the disposition of their account balances on reaching retirement age. Are these assets simply annuitized by most? Do the funds continue to be actively invested, say in an IRA account?

The 1997 Retirement Confidence Survey (RCS), sponsored by the Employee Benefit Research Institute (EBRI), Mathew Greenwald and Associates (MGA), and the American Savings Education Council (ASEC), addressed the issues of benefit preservation among workers receiving a lump-sum distribution and the disposition of account balances among workers reaching retirement age.4

Retiree Use of Retirement Savings
IRAs—Retirees were first asked how much money they had invested in IRAs at the time of their retirement. One-third reported that they had an IRA at retirement and could give an amount for the account balance. These retirees were then given six options and asked whether they had used any of their IRA money in any of those six ways. Close to one-half (45 percent) of retired IRA owners reported leaving all of the money in the IRA without making any withdrawals to date. Thirty-three percent reported leaving some or all of the money in the IRA and making withdrawals as needed, and 29 percent reported leaving some or all of the money in the IRA and receiving regular periodic payments from the account. One-half reported leaving some or all of the money in the IRA and withdrawing only the amount required by law each year (chart 1).

Only 7 percent of retired IRA owners reported putting some or all of their IRA balance into an annuity and receiving...
Younger retirees were much more likely to report having left the money in the IRA without having made any withdrawals to date. Older retirees were more likely, on the other hand, to report having left the money in the IRA and taking out only the amount required by law each year. This indicates that retirees tend not to touch this money immediately on retirement, and when they do begin to tap into the money, the amount is often dictated by the government through the tax code. In addition, the youngest retirees were also the most likely to annuitize.

401(k) Plans—One-fifth of current retirees had money in other types of retirement savings plans, such as a 401(k), thrift saving, or profit-sharing plan at the time they retired and knew the amount in their account. In the RCS, these individuals were given eight options and asked whether they had used any of their account money in any of those eight ways (chart 2).

One-third (32 percent) of retirees with a plan account balance at retirement reported leaving all of the money in a plan from work and not having withdrawn anything to
date. Twenty-seven percent left some or all of the money in a plan from work and make withdrawals when needed, and 20 percent left some or all the money in a plan from work and withdraw only the amount required by law each year.

Seven percent of current retirees reported putting some or all the money in an IRA and have made no withdrawals to date. Twenty-one percent put some or all of the money in an IRA and receive regular periodic payments, and 18 percent put some or all of it in an IRA and make withdrawals when needed.

One-fifth of current retirees put some or all of the money into an annuity and now receive regular payments. Forty percent reported putting some or all of the money into another savings vehicle, such as a savings account, a certificate of deposit, mutual funds, stocks, bonds, etc. 7

Workers and Lump-Sum Distributions

The 1997 RCS also asked current workers if they had become eligible since January 1, 1993, 8 to receive a lump-sum distribution from a retirement plan on leaving a job before retirement. Seventeen percent of workers responded that they had the opportunity to receive a lump-sum distribution from a retirement plan over this period.

Of those with the opportunity, 34 percent reported leaving some or all of the money in their former employer’s plan (chart 3). Most publicly available survey data typically miss these instances of benefit preservation. Therefore, such data sources underestimate the true degree of benefit preservation that is occurring, because they do not account for potential distributions that do not occur. As is shown here, “leaving the money behind in the plan” is a significant source of benefit preservation.

In addition, 42 percent of workers reported rolling over some or all of the money into an IRA, and 8 percent reported a rollover into a new employer’s plan (chart 3). Therefore, when preservation does occur, it is most likely to occur by rollover to an IRA or leaving the money behind in the old employer’s plan, not via rollover into a new employer’s plan. When it comes to benefit preservation, younger workers are in general more likely to leave the money behind in a former employer’s plan, while older workers are in general more likely to roll it over into an IRA.

Finally, a significant fraction of respondents report leakage of money out of the retirement system. Twenty-three percent report saving some or all of the money in a non-tax-preferred vehicle, and 30 percent report spending at least some of the money and/or using it to pay off debt (chart 3). 9 Therefore, at least 5 percent of all current workers have experienced some degree of benefit leakage from the employment-based retirement system over the past three years because they chose to spend some or all of a lump-sum distribution that they received.

Implications

These findings indicate that despite changes in place since 1993 designed to encourage preservation of retirement benefits, many workers have chosen not to roll over their lump-sum distributions when changing jobs. Such behavior can potentially result in a significant loss of retirement income. However, it should also be noted that such cashouts are less frequent than commonly believed due to the fact that many workers choose not to receive a distribution when eligible on job change, but rather leave some or all of their account balance behind in their former employer’s plan.

When workers retire with money in retirement savings vehicles such as IRAs and 401(k)s, they tend to initially leave the money untouched in the IRA or employment-based plan. As workers age, they will begin to withdraw the money, but often they withdraw only the minimum amount dictated by law each year.

As the 401(k) system matures and significant numbers of workers...
begin to retire with large account balances that must last for the remainder of their lives, educating workers about their options and how best to manage this money in retirement will assume the level of importance devoted to participation and asset allocation education today.

Endnotes
3 See Paul Yakoboski, “Large Plan Lump-Sums: Rollovers and Cashouts,” EBRI Issue Brief no. 188 (Employee Benefit Research Institute, August 1997).
4 These issues were explored in the 1996 RCS. See Paul Yakoboski, “Preservation and Annuity in Retirement Saving Accounts,” EBRI Notes no. 3 (Employee Benefit Research Institute, March 1997): 1-3. The questions in the 1997 RCS were revised based on the answers to last year’s questions.
5 It is possible for a retiree to use his or her IRA balance in more than one way.
6 This could be the result of restricting the sample to retirees who knew the balance of their IRA account and of rewording the question to include two more options for account balance use.
7 It is possible for a retiree to use his or her account balance in more than one way.
8 Changes in the law regarding lump-sum distributions became effective in 1993. These changes were designed to encourage benefit preservation by mandating the opportunity for direct transfers of account balances to an IRA or a new employer’s plan and by imposing a 20 percent withholding on accounts that did not utilize the direct transfer option.
9 It is possible for a worker to use his or her account balance in more than one way.

BLS Survey Shows Change in Group Health and Retirement Plan Participation
by Kenneth McDonnell, EBRI

Introduction
Participation in the two major employee benefit programs—group health insurance and retirement income plans—declined between 1980 and 1995, according to the latest Bureau of Labor Statistics (BLS) employee benefit survey of medium and large private establishments. The 1995 survey covers 33.4 million full-time workers and 6.8 million part-time workers in nonfarm establishments employing 100 or more employees. BLS gathers the data for this survey by obtaining the plan documentation from a randomly selected sample of employers and conducting follow-up interviews for clarification.

Group Health Insurance
Full-time workers’ participation in employment-based group health insurance plans declined steadily from 97 percent in 1980 to 77 percent in 1995 (table 1). Research and policy debates attempt to understand the reasons why participation in employment-based health insurance continues to decline. One conclusion being offered is that fewer employers are offering health insurance. Unfortunately, there are no survey data to support or refute this claim because the BLS survey reports data on employees’ participation in benefits, not on employers’ offering of benefits. Research has shown several factors that might explain the decline in participation. They include the shift from the manufacturing sector to the service sector, the decline in unionization, stagnation in family income, and the rising cost of health insurance premiums.

Employers in medium and large private establishments are moving toward managed care plans in an effort to control the costs of health insurance. The majority of full-time employees who participate in an employment-based health insurance plan are now enrolled in a managed care plan. In 1988, 26 percent of full-time employees were enrolled in a managed care plan. By 1995, that percentage increased to 62 percent (table 2).

Retirement Income
Participation in employment-based retirement income plans, while declining between 1985 (91 percent of full-time employees) and 1991 (78 percent), increased slightly to 80 percent in 1995 (table 1). The BLS survey reports data on two major types of employment-based retirement income plans—defined benefit and defined contribution.
Table 1  
Percentage of Full- and Part-Time Employees Participating in Employee Benefit Programs:  
Medium and Large Private Establishments, Selected Years 1980-1995

<table>
<thead>
<tr>
<th>Employee Benefit Program</th>
<th>Full-Time Employees</th>
<th>Part-Time Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(old scope)</td>
<td>(new scope)</td>
</tr>
<tr>
<td>Paid Leave</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holidays</td>
<td>99%</td>
<td>98%</td>
</tr>
<tr>
<td>Vacations</td>
<td>100%</td>
<td>99%</td>
</tr>
<tr>
<td>Personal leave</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>Funeral leave</td>
<td>d</td>
<td>88%</td>
</tr>
<tr>
<td>Jury duty leave</td>
<td>d</td>
<td>92%</td>
</tr>
<tr>
<td>Military leave</td>
<td>d</td>
<td>70%</td>
</tr>
<tr>
<td>Maternity leave</td>
<td>d</td>
<td>2%</td>
</tr>
<tr>
<td>Paternity leave</td>
<td>d</td>
<td>1%</td>
</tr>
<tr>
<td>Family leave</td>
<td>e</td>
<td>e</td>
</tr>
<tr>
<td>Unpaid Leave</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maternity leave</td>
<td>d</td>
<td>d</td>
</tr>
<tr>
<td>Paternity leave</td>
<td>d</td>
<td>d</td>
</tr>
<tr>
<td>Family leave</td>
<td>e</td>
<td>e</td>
</tr>
<tr>
<td>Disability Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term disability</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>paid sick leave</td>
<td>62%</td>
<td>67%</td>
</tr>
<tr>
<td>sickness and accident insurance</td>
<td>54%</td>
<td>52%</td>
</tr>
<tr>
<td>Long-term disability insurance</td>
<td>40%</td>
<td>48%</td>
</tr>
<tr>
<td>Survivor Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td>96%</td>
<td>96%</td>
</tr>
<tr>
<td>Accidental death and dismemberment</td>
<td>66%</td>
<td>70%</td>
</tr>
<tr>
<td>Survivor income</td>
<td>d</td>
<td>12%</td>
</tr>
<tr>
<td>Health Care Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health insurance</td>
<td>97%</td>
<td>96%</td>
</tr>
<tr>
<td>Dental insurance</td>
<td>54%</td>
<td>73%</td>
</tr>
<tr>
<td>Vision care</td>
<td>20%</td>
<td>33%</td>
</tr>
<tr>
<td>Outpatient prescription drugs</td>
<td>94%</td>
<td>94%</td>
</tr>
<tr>
<td>Retirement Income Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>defined benefit pension</td>
<td>84%</td>
<td>80%</td>
</tr>
<tr>
<td>defined contribution</td>
<td>d</td>
<td>41%</td>
</tr>
<tr>
<td>cash or deferred arrangements with employer contributions</td>
<td>d</td>
<td>d</td>
</tr>
<tr>
<td>no employer contributions</td>
<td>d</td>
<td>d</td>
</tr>
<tr>
<td>Other Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible benefits plans</td>
<td>d</td>
<td>d</td>
</tr>
<tr>
<td>Reimbursement accounts</td>
<td>d</td>
<td>d</td>
</tr>
</tbody>
</table>


Note: Because of rounding, sums of individual items may not equal totals.

aIncludes workers covered but not yet participating due to minimum service requirements. Does not include workers offered but not electing contributory benefits.

bThe Bureau of Labor Statistics' (BLS) survey scope was expanded significantly in 1988 to include private, nonfarm establishments employing 100 or more workers. The former survey coverage, which previously included full-time employees in establishments with 50, 100, or 250 workers, depending on industry, is referred to as old scope. The expanded survey coverage, which in 1988 and after includes full-time employees in private, nonfarm establishments employing 100 or more workers in the District of Columbia and all states except Alaska and Hawaii, is referred to as new scope. In order to permit comparisons of 1988 findings with those of prior years, BLS also tabulated selected 1988 survey responses for old scope establishments. In 1991 and following years, the survey includes establishments in Alaska and Hawaii.

cIncludes only benefits that are partly or wholly employer paid.

dData not available.

eBLS changed the classification of maternity and paternity leave to family/leave in 1994.
fLess than 0.5 percent.

gIncludes defined benefit pension plans and defined contribution retirement plans. The total is less than the sum of the individual items because many employees participated in both types of plans.

hFor 1980, 2 percent of participants in the data reported for defined benefit pension plans were participating in money purchase plans and plans with formulas based on employer or employee contributions.

iFor flexible benefits plans and reimbursement accounts, data represent percentage of eligible employees.
plans. While participation in defined benefit plans declined from 80 percent in 1985 to 52 percent in 1995, participation in defined contribution plans increased. In 1985, 41 percent of full-time employees participated in a defined contribution plan. This percentage increased to 55 percent by 1995 (table 1). The sum of participants in defined benefit and defined contribution plans is greater than the number of participants in all retirement income plans because an individual may participate in more than one plan type. The BLS survey instrument is unable to identify these cases.

Part-Time Workers
As with full-time workers, participation in health insurance and retirement income benefits declined among part-time workers. In 1991, 28 percent of part-time workers participated in an employment-based health insurance plan. By 1995, that percentage declined to 19 percent (table 1). Participation in a retirement income plan among part-time workers was 40 percent in 1991, declining to 37 percent by 1995 (table 1). While part-time workers’ participation in a defined contribution plan increased from 20 percent in 1991 to 24 percent in 1995, this was not enough to offset the decline in participation in a defined benefit plan (from 28 percent in 1991 to 22 percent in 1995).

Table 2

<table>
<thead>
<tr>
<th>Fee Arrangement</th>
<th>1988</th>
<th>1991</th>
<th>1993</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total with Medical Care</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Traditional fee-for-service</td>
<td>74</td>
<td>67</td>
<td>50</td>
<td>37</td>
</tr>
<tr>
<td>Preferred provider organization</td>
<td>7</td>
<td>16</td>
<td>26</td>
<td>34</td>
</tr>
<tr>
<td>Health maintenance organization</td>
<td>19</td>
<td>17</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>Other</td>
<td>d</td>
<td>d</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>


First Annual Health Confidence Survey (HCS)
In November, EBRI and Mathew Greenwald & Associates (MGA) representatives met at EBRI with the underwriters of the first annual Health Confidence Survey (HCS) to discuss survey objectives and begin drafting the survey instrument. Final comments on the instrument will be incorporated later this month, and the survey is slated to go into the field in early February. At this writing, 17 organizations have already signed on as underwriters, and interest continues to grow. It’s not too late to become an underwriter! For more information on the HCS and a list of current underwriters, visit EBRI online at http://www.ebri.org, or contact EBRI Research Associate Paul Fronstin at (202) 775-6352, e-mail: fronstin@ebri.org.

1998 Retirement Confidence Survey (RCS)
While 1997 was a banner year for the Retirement Confidence Survey (RCS), effort is already being devoted to 1998, which presents the opportunity for the RCS to focus national attention on retirement income security issues at the National Summit on Retirement Savings called for by the recently signed SAVER Act. EBRI and ASEC will assist the Department of Labor in organizing the summit.

Summit objectives include advancing the public’s understand-
ing of retirement savings and identifying the barriers that hinder workers from saving adequately and impede employers, especially small employers, from assisting their workers in accumulating retirement savings.

Given these objectives, we are accelerating the project’s timing and expanding its scope. The RCS from previous years will serve as the foundation. In addition, we will produce a special analysis of issues minority groups face in saving for retirement. We will also conduct a small business survey exploring the issues these employers face in offering retirement plans. We will field the RCS in March, release the results shortly before the summit, and then highlight them throughout the summit.

Given our coordination with the White House Summit and the expanded scope of the research, we believe that the RCS project will generate tremendous interest in 1998. We are currently soliciting underwriters for the 1998 RCS project. Because of the unique nature of this year’s effort, there are three levels of financial commitment. The cost of underwriting the base RCS for 1998 remains $5,000 per organization. Underwriters of the RCS constitute the survey’s steering committee. The committee provides input into survey development and is briefed on the findings before public release. An additional contribution of $2,500 will help underwrite the RCS Minority Special Report and entitle an organization to serve on its steering committee. For $12,500, an organization can participate in the Small Business Retirement Survey (in addition to the RCS and the Minority Special Report) and serve on this component’s steering committee.

If you are interested in funding the 1998 RCS or have any questions about the project, please call Paul Yakoboski at (202) 775-6329, e-mail: yakoboski@ebri.org.

1998 Research Priorities
The EBRI Board of Trustees met in December to set research priorities for 1998. This year, EBRI’s work will focus on health insurance coverage, managed care and the changing health system, Social Security reform, analysis of defined contribution plan participants and their behavior, analysis of the implications for defined benefit plans of changes in the tax law and changes in longevity, savings and retirement planning education, the HCS, and the expanded RCS (see items above).

EBRI Educational Briefing
On Friday, Jan. 30, EBRI Public Affairs Associate Bill Pierron and Research Associate Craig Copeland will present an educational briefing on ERISA and health plans. This session will cover basic issues concerning ERISA’s preemption of state law, as well as current estimates of the number of individuals with employment-based health coverage subject to ERISA preemption. The briefing is open to representatives of EBRI Member firms, congressional and federal agency staff, and the news media. The session will be held in room B-369 of the Rayburn House Office Building at 9:30 a.m. Refreshments will be provided. For further information on EBRI-ERF’s ongoing series of educational briefings on benefits issues, please contact Bill Pierron at (202) 775-6353, e-mail: pierron@ebri.org.

EBRI-ERF Policy Forum
If you were unable attend the EBRI-ERF Dec. 3 policy forum, “Do Employers/Employees Still Need Employee Benefits? Getting to Yes,” the February issue of EBRI Notes will include a summary of forum highlights by EBRI Fellow Christopher Conte. We will also publish a book based on the policy forum proceedings in the spring.

EBRI in the News
EBRI Senior Research Associate Paul Yakoboski was a guest on the radio show, “Secure Retirement,” on Dec. 6. The topic of the show was IRAs and saving for retirement.

EBRI receives a continuous stream of inquiry calls from the news media each month, resulting in print and electronic coverage at the local and national levels as well as in trade publications. A Dialog search of 53 major U.S. newspapers for the period Nov. 1–Dec. 10 yielded 53 EBRI mentions and 7 ASEC mentions.

EBRI Prepares for 20th Anniversary Celebration
The countdown begins—EBRI’s 20th
anniversary is less than 226 days away! Have you made plans to join EBRI in celebrating its 20th anniversary on Monday, Sept. 14, 1998, with a black-tie gala to be held in New York City? Tables are going quickly—at this writing, 7 benefactor tables, 17 patron tables, and 11 seats have already been reserved, so make your reservations soon! The 10th and 15th anniversary celebrations were huge successes, so please plan to join us for this exciting event. For more information, contact Patsy D’Amelio at (202) 775-6323, e-mail: damelio@ebri.org.

Surf EBRI Online
If you haven’t already visited our sites, both EBRI and ASEC are on the World Wide Web! We can be found at ebri.org and asec.org.

EBRI Members, don’t forget the last three years of Issue Briefs and Notes are available in full text on the publications page. Stay up-to-date by reading FACTS from EBRI, EBRI press releases, congressional testimony, and our “What’s New” section highlighting recent EBRI activities and events, up-to-date information on hot topics in the benefits arena, as well as links to current legislative, administrative, and various other developments.

Washington Update
By Bill Pierron, EBRI

Congressional Schedule & Agenda
The House and Senate will reconvene Jan. 27, and their target adjournment date is Oct. 9. With a full slate of district work periods scheduled, including the month of August, legislators will have limited time to complete their work before the fall election.

Outlook: Pundits have been predicting a contentious and partisan session, but the imperative to get reelected will tend to focus policymakers on issues where bipartisan legislation is achievable. At the top of the legislative priority list is health care “quality.” (See EBRI Notes/ Washington Update Dec. 1997.) Although it is unclear whether such legislation will move—House Majority Whip Dick Armey (R-TX) has been referring to quality proposals as “ClintonCareII”—there is strong bipartisan support for it. In addition, the President’s Advisory Commission on Consumer Protection and Quality in the Health Care Industry is scheduled to release its full bill of rights report in March, adding momentum to the issue.

Additionally, lawmakers are expected to pass an Internal Revenue Service (IRS) reform bill that would make the agency “kinder and gentler” in its dealings with taxpayers. Congressional leaders have been trying to link IRS reform to the concept of fundamental restructuring of the tax code, in the form of either a national sales tax or a flat tax, but such major changes are unlikely to occur in the short run. More likely, probably late in the session, is another omnibus tax reform measure that includes some pension simplification provisions, possibly an expanded education individual retirement account (IRA), a child care tax credit for businesses, and limited individual tax relief, such as a partial elimination of the “marriage penalty.” To a large extent, any such legislation will be driven by economic forecasts. If the economy remains strong, bringing in greater than expected taxes, lawmakers will find it easier to make changes in the tax code that would reduce government revenues.

Unisys Case
In late November, a U.S. District Court judge for the District of Eastern Pennsylvania ruled that Unisys Corporation was not guilty of breaching its fiduciary duties under the Employee Retirement Income Security Act of 1974 (ERISA). The judge found that ERISA sec. 404(c) shielded the company from liability (In re Unisys Savings Plan Litigation, DC EPa, No. 91-3067, 11/24/97). In the initial trial phase of this litigation, which began in 1995, the judge granted summary judgment to Unisys. The Third Circuit Court of Appeals then remanded the case to the trial court to make findings of fact regarding the plaintiffs’ claims, which resulted in this ruling. The decision is being appealed.
According to the judge, the plain-information led to their losses.show that any failure to disclose
hold that plan participants failed to
prudent, based on the information
risks associated with the funds.
Executive Life GICs represented
about 20 percent of the fixed income
fund at Unisys.

The judge found that the
selection of Executive Life was
prudent, based on the information
available to Unisys after its investi-
gations. Furthermore, the judge
held that plan participants failed to
show that any failure to disclose
information led to their losses.
According to the judge, the plain-
tiffs did not make use of informa-
tion about Executive Life that was
readily available to them, including
information sent through the
company’s internal benefit commu-
nications system. The judge also
found that the plaintiffs failed to
show that the alleged failure to
diversify led to any losses. Essen-
tially, participants had investment
options open to them that they
failed to utilize.

Unisys was one of many plan
sponsors that selected guaranteed
investment contracts (GICs) offered
by Executive Life for their sec.
401(k) plans. Executive Life went
into receivership in 1991 and
payments on its GICs were frozen.
Plan participants brought a class
action suit, claiming that Unisys
breached its fiduciary duties by
imprudently selecting Executive
Life GICs, failing to appropriately
diversify the investments, and
failing to inform participants of the
Outlook: This decision is likely to
be appealed. The Department of
Labor (DOL), which filed an amicus
brief at the appeals level pushing
for the case to be remanded, may
weigh in again.

Personal Privacy
The Personal Information Privacy
Act (H.R. 1813), introduced by Rep.
Gerald Kleczka (D-WI), would
amend the Social Security Act to
prevent the sale or use of Social
Security numbers for information
or commercial purposes without an
individual’s consent. Sen. Diane
Feinstein (D-CA) has introduced a
companion measure (S. 600). The
bills would apply to all businesses
in the United States, which would
have two years from the date of
enactment to comply.

Outlook: This proposal was aimed
at ending the problems some people
have had with inaccurate credit
reports and fraudulent use of their
Social Security numbers. However,
for employers that use employee
Social Security numbers for record-
keeping purposes, this proposal
could lead to significant increases
in administrative costs. The bills
contain exceptions for the use of
Social Security numbers for certain
wage and tax identification pur-
poses, but employers would be
required to come up with an alter-
native identification system for
benefits and record-keeping pur-
poses. In an election year, this type
of proposal could gain broad-based
support on both sides of the aisle.
In September 1997, the SEC proposed to revise Rule 18a-8, which governs shareholder involvement in corporate proxy statements.

Among the changes proposed was repeal of the policy articulated in the Cracker Barrel case, which had allowed companies to exclude certain shareholder-produced communications relating to social concerns from proxy statements.

While repealing Cracker Barrel, SEC also proposed rule changes that would have made it easier for companies to exclude matters from proxy mailings deemed “insignificant” or dealing with personal grievances or special interests.

While most shareholder groups favored repeal of Cracker Barrel, many organizations that wish to promote economically targeted or social investment policies believe the new proposal goes too far in protecting management.

Requires health plans to provide a minimum 48 hours of postpartum hospital stay for routine deliveries and 96 hours for cesarean sections. Physicians and patients may mutually agree to earlier discharges.

Requires health plans that provide both physical health and mental health benefits to offer the same annual and lifetime dollar limits for both types of coverage. Plans that can show that their premiums would increase by 1 percent or more in a year are exempt from the parity requirement.

Two issues concern plan sponsors and regulators: 1) Does the one percent exemption apply prospectively or retrospectively, and 2) Can mental health benefits be “carved out” into a separate ERISA plan, and thereby avoid the parity requirement?

Mental health advocates fear that a prospective application of the 1 percent exemption would render the law toothless.

SEC has reacted to criticism from institutional investors, unions, and various issue-oriented groups by extending the comment period to Jan. 2.

SEC has also been in discussions with corporate governance experts over ways to reach a compromise position. A revised policy is expected early in 1998.


As required by the statute, ERISA plans must disclose the new provisions in their summary plan descriptions (SPDs) within 60 days of the law’s application to the plan. In addition, they must include “model language” in their SPDs describing what the law does. Model language is included in the statute.

Because the law takes effect Jan. 1, plans will have until Mar. 1 to change their SPDs.


As of this writing, no regulations have been formally issued, but regulators are reportedly considering retrospective application of the 1 percent exemption. A six-month compliance requirement may be imposed before an employer can seek the exemption.

The carve-out issue is likely to be treated separately. Regulators are reportedly leaning toward viewing carve-outs as one plan for purposes of the parity requirement.

SAVER Act Passes

President Clinton has signed the Savings Are Vital to Everyone’s Retirement Act of 1997 (SAVER Act) into law (P.L. 105-92). SAVER aims to advance the public’s knowledge and understanding of the importance of retirement savings. It will do this by: 1) providing a bipartisan national retirement savings summit hosted by the White House and congressional leaders; and 2) establishing an ongoing educational program coordinated by DOL. The legislation requires the summit to be held by July 15, 1998, in Washington, DC, with followup summits scheduled for 2001 and 2005.

Outlook: At this writing, final agreements regarding the agenda and delegate selection are still being worked out among the DOL, various congressional offices, and the White House. For updates on the status of the summit, visit the American Savings Education Council online at http://www.asec.org.
New Publications/Internet Sites

New Publications
[Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications, call (202) 512-2470. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809.]


Hurd, Michael D., and Naohiro Yashiro. The Economic Effects of Aging in the United States and Japan. $65. University of Chicago Distribution Center, 11030 South Langley Avenue, Chicago, IL, (800) 621-2736.


Wise, David A. Facing the Age Wave. $16.95. Hoover Institution Press, Stanford University, Stanford, CA 94305-6010, (800) 935-2882.

Documents Available on the Internet


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