

# EBRI NOTES

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### PUBLIC POLICY TOWARDS EMPLOYEE BENEFITS: CHANGING PERSPECTIVES

Public and private employee benefit programs are receiving increased attention from policymakers due to government deficits and an interest in bringing greater equity, parity and nondiscrimination to such programs. Government deficits may provide the necessary force for developing a long-discussed, comprehensive employee benefit public policy. This could result in significant long-term changes.

Concerns for equity, parity and nondiscrimination led to the employee benefit provisions in the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) and to the 1983 Social Security Amendments. They also influenced the development of recent changes in railroad retirement and numerous pending employee benefit legislative proposals. In addition, large deficits and the equity issue may be instrumental in designing a post-1984 federal retirement system for new government employees as well as affecting Medicare reform.

Public- and private-sector employee benefit programs will continue to experience reevaluation. This reevaluation process may generate many questions. For example: (1) What are the general revenue implications of legislative changes that affect employee benefit programs? (2) What are the benefits, provided by current and proposed programs to low-, middle- and high-income groups? (3) What percentage of the population participates in a particular type of employee benefit program and how often do participants actually benefit by the program? (4) What social and economic needs does the program satisfy? (5) Does this program satisfy these needs in the most effective and efficient manner?

In addition, 1983 legislative hearings raised other specific employee benefit questions: (1) Should flexible compensation plans be allowed? (2) Should there be a limit on tax-exempt nonretirement benefits? Should these limits apply to a specific benefit (e.g., health insurance) or should they apply to a complete benefit package? (3) Should we continue to treat 401(k) salary

reduction plans as retirement plans? (4) Should we increase the present individual retirement account contribution limits? (5) Are defined benefit pension plans necessary to assure retirement income security? (6) Are lump-sum distributions and loan provisions in employee benefit plans effective public policy?

The years ahead will be a period of challenge and opportunity. Government deficits and the concern over equity, parity and nondiscrimination in employee benefit programs are issues that need resolution. New policies must reflect economic, societal and demographic changes. The changing perspectives influencing public policy towards employee benefits have important ramifications for the economic security of all workers and retirees.

#### TAX-FAVORED EMPLOYEE BENEFIT GROWTH

Employee benefit growth has emerged as a public policy issue. Those concerned about rapid benefits growth argue that it occurs at the expense of wage and salary growth, and slower wage and salary growth means slower tax base growth. Erosion of the tax base affects the financing of government programs. Those concerned about the effect of benefit growth on taxes argue that revising employee benefits tax policy is one way to curb future tax base erosion.

Tax-favored employee benefits can be divided into two groups:

- (1) Tax-deferred benefits primarily include employer contributions to retirement income and capital accumulation plans. In 1981, these benefits represented 3.4 percent of total compensation.<sup>1/</sup> Taxation of these benefits is deferred until the employee receives income from the plan.
- (2) Tax-exempt benefits primarily include employer contributions to group health insurance, life insurance, long-term disability and short-term disability income programs. In 1981, these benefits represented 3.5 percent of total compensation.<sup>2/</sup> Within certain prescribed limits, employees never pay taxes on these benefits.<sup>3/</sup> Other benefits, such as dental insurance, child care, merchandise discounts and employer-provided meals, are also tax exempt.

In 1981, tax-favored benefits constituted approximately 8.8 percent of wages and salaries. See table 1. Of this, tax-exempt employee benefits were 4.7 percent and tax-deferred employee benefits were 4.1 percent of wages and salaries.

<sup>1/</sup> U.S. Department of Commerce, Survey of Current Business (Washington, D.C., 1982), tables 6.5, 6.13.

<sup>2/</sup> Ibid.

<sup>3/</sup> Although employees do not pay taxes on employer contributions to life insurance or disability plans, income paid to the employee from such plans is generally taxable.

TABLE 1

## Tax-Favored Employee Benefits by Specific Tax Treatment--1981

Tax Status of Employee Benefits	Employer Contributions as a Percent of Wages and Salaries	Employer Contributions as a Percent of All Benefits <u>1/</u>	Employer Contributions as a Percent of Tax-Favored Benefits
Pension and profit sharing plans <u>2/</u>	3.9	12.0	44.3
Other tax-deferred benefits <u>3/</u>	<u>0.2</u>	<u>0.6</u>	<u>2.3</u>
Total tax-deferred benefits	4.1	12.6	46.6
Contributions to group health insurance, life insurance, long-term disability and short-term disability	4.2	12.9	47.7
Other tax-exempt benefits <u>4/</u>	<u>0.5</u>	<u>1.5</u>	<u>5.7</u>
Total tax-exempt benefits	4.7	14.5 <u>5/</u>	53.4
All tax-favored benefits	8.8	27.1 <u>5/</u>	100.0

Source: EBRI tabulations of estimates produced by the U.S. Chamber of Commerce, Employee Benefits 1981 (Washington, D.C., 1982), pp. 8, 30.

1/ Includes legally required employer payments (29.5 percent of total benefits) and discretionary taxable benefits--primarily paid vacations and other payment for time not worked (43.4 percent), as well as discretionary tax-favored benefits (27.1 percent).

2/ Includes EBRI estimate of employer contributions to profit sharing plans based on U.S. Chamber of Commerce figures.

3/ Includes EBRI estimate of employer contributions to thrift plans based on U.S. Chamber of Commerce figures.

4/ EBRI estimate of employer contributions to dental insurance premiums, merchandise discounts, employer-provided meals, payments for vision care and prescription drugs, moving expenses and employee education expenditures based on U.S. Chamber of Commerce figures.

5/ Components do not add to total due to rounding.

Over the last thirty years, tax-favored employee benefits have grown more rapidly than wages and salaries, and slightly faster than total compensation (i.e., earnings and the total cost of benefits). Thus, tax-favored benefits are an increasingly important part of compensation. See table 2. Nevertheless, the absolute value of tax-favored benefits--and of tax-exempt benefits in particular--is much smaller than is commonly assumed.

The growth of tax-favored benefits can be attributed to several factors. The most important of these is probably the growth of worker participation in pension and health insurance plans. In recent years, the growth of tax-favored benefits, relative to compensation growth, has declined markedly. This reduced growth, in turn, may indicate the maturation of tax-exempt benefits and an abatement of the tax base erosion attributable to employee benefit growth.

TABLE 2

Employer Contributions to Pension and Selected Welfare  
Plans as a Percent of Compensation and Average Annual Growth Rate  
for Selected Years

Year	Pension and Profit Sharing	Group Health	Group Life	Total
<u>Employer Contributions as a Percent of Compensation:</u>				
1950	1.1	0.7 <sup>1/</sup>	-	1.8
1955	1.5	0.8	0.2	2.5
1960	1.6	1.1	0.4	3.1
1965	1.9	1.5	0.4	3.8
1970	2.1	1.9	0.5	4.5
1975	3.0	2.7	0.5	6.2
1976	3.2	2.8	0.4	6.4
1977	3.3	3.0	0.4	6.7
1978	3.4	3.0	0.4	6.8
1979	3.4	3.0	0.4	6.8
1980	3.4	3.1	0.4	6.9
1981	3.4	3.1	0.4	6.9
<u>Average Annual Growth Rates:</u>				
1950-1981	3.7	4.9	2.3	4.4
1970-1975	7.4	7.3	-	6.6
1976-1981	1.2	2.1	-	1.5

Source: Data for 1950-1974, from U.S. Department of Commerce, National Income and Product Accounts 1929-1974 (Washington, D.C., 1977), tables 6.5, 6.13; for 1975, from U.S. Department of Commerce, Survey of Current Business (Washington, D.C., July 1976), tables 6.5, 6.13; for 1977-1979, from U.S. Department of Commerce, Survey of Current Business, Special Supplement (Washington, D.C., July 1981), tables 6.5, 6.13; for 1980-1981, from U.S. Department of Commerce, Survey of Current Business (Washington, D.C., July 1982), tables 6.5, 6.13.

<sup>1/</sup> Includes both group health and group life for this year.

### NEW COMMISSION TO LOOK AT MEDICARE

The 1983 Social Security Amendments mandated the creation of a permanent commission--the Prospective Payment Assessment Commission. The Commission will collect and assess information on hospital cost and productivity, technological advances and the cost effectiveness of hospital services. In addition, the Commission will recommend an appropriate payment rate under the newly passed Diagnosis Related Groups (DRGs) system to the Secretary of Health and Human Services. The DRG system will prospectively price hospital services provided to Medicare patients.

The Office of Technology Assessment (OTA), an analytical arm of the United States Congress, will appoint fifteen Commission members to serve for three-year terms. They will seek nominations from a wide range of national organizations that represent groups such as: (1) physicians; (2) registered professional nurses; (3) skilled health professionals; (4) hospitals; (5) health care product manufacturers; (6) businesses; (7) labor; and (8) the elderly. OTA must present an annual report to Congress on the Commission's progress. For more information, contact: U.S. Congress, Office of Technology Assessment, Health Program, Washington, DC 20510, (202) 226-2070.

## OTHER EBRI ACTIVITIES

### EBRI Articles

The National Association of Manufacturers recently published an article by EBRI's Executive Director, Dallas L. Salisbury, in their August issue of Enterprise. In "The Corporate Stake in Employee Benefits," Salisbury states that "A number of demographic trends are coming together in a way that will influence corporate human-resource policies, manpower planning strategies, current work-force costs, the costs of maintaining a retired population and the makeup of the corporate balance sheet." As examples of such demographic trends, Salisbury cites: (1) longer life expectancy; (2) the baby boom generation of the 1950s; and (3) the baby bust generation of the 1960s. Changing economic conditions and steadily rising employee benefit costs are also affecting benefit programs. "All factors indicate that this will continue during the 1980s, putting increased pressure on corporate profits." Legislative reforms and proposals before Congress raise questions with major implications for benefit program costs. Public policy decision makers must consider all sources of economic security (i.e., financial sources from the government, employer and individual) in order to control public- and private-sector costs. Salisbury concludes that this "will help to assure survival of the government, the individual and a free-enterprise economy."

EBRI staff prepared "Policy Issues and Problems on the Horizon for State and Local Employee Benefit Plans." This article was recently published in the International Foundation's 1982 Public Employees Conference Proceedings. The article notes that there is growing public interest and special interest in state and local pension plan asset investment. This will "increase the legislative pressure to target the investment of these assets toward socially desirable or acceptable investment vehicles." Federal concern over public pension plan management, improved disclosure of financial operations and financial status will result in legislative attempts to regulate state and local plans.

The Business Week Almanac, edited by J. Robert Connor and the Business Week staff includes a chapter entitled "Employee Benefits." The information in this chapter is drawn from EBRI's educational pamphlet series and discusses: (1) group life insurance; (2) medical care insurance; (3) pension plans; (4) profit sharing plans; (5) employee stock ownership plans; and (6) flexible compensation plans.

### EBRI Speeches

Mr. Salisbury delivered presentations to several conferences during July and August. These included: (1) the Western Pension Conference Annual Meeting, San Diego; (2) Southern Trust School, Birmingham; and (3) the 1983 International Foundation Public Employees Conference, Seattle.

### Forthcoming Publications

EBRI's forthcoming book on Fundamentals of Employee Benefit Programs offers a straightforward, basic discussion of the various employee benefit programs. Each chapter focuses on a particular benefit plan or benefit issue. Chapters describe plan characteristics, offer a historical perspective on plan development and review related regulations. The book includes discussion of: (1) public and private retirement and capital accumulation plans, e.g.,

Social Security, defined benefit and defined contribution plans, tax-sheltered annuities, IRAs, ESOPs, thrift plans and profit sharing plans; (2) health care plans, e.g., health insurance, health maintenance organizations, dental insurance and vision insurance; and (3) welfare plans, e.g., life insurance. Additional chapters focus specifically on legislation such as ERISA, innovative benefit approaches such as flexible benefit programs and selected contemporary issues such as retirement planning.

The book replaces EBRI's educational pamphlet series. It offers employers, employees and human resource managers an overview of the broad range of available benefit plans. Expected publication--October 1983. Price--\$10.00.

#### Employee Benefit Abstracts Available to EBRI Sponsors

EBRI recently contracted for an abstract service with Data/Courier Inc., an information services company. Data/Courier reviews over 550 business publications and produces monthly summaries of relevant articles on employee benefits, compensation and pension fund management. Two series are available: Series I--Employee Benefits and Compensation; and Series II--Pension Fund Management. Each series is expected to contain 60 to 100 abstracts monthly. The cost to EBRI sponsors is \$100 per series annually. Also, copies of articles corresponding with abstracts are available for \$10 each. For more information, contact: Jean Smith, EBRI/ERF Publications, 221 K Street, NW, Suite 860, Washington, DC 20037, (202) 659-0670.

#### OTHER OUTSIDE ACTIVITIES

#### Social Investment and the Regulation of Pension Investments: Basic Materials, Mike Leibig and Randy Rabinowitz

This annotated bibliographical outline lists available materials on pension investment regulation and the social investment issue. It is based on an outline that was originally prepared for a May 1982 AFL-CIO meeting. The outline was revised and expanded to include recent developments such as: (1) new tax legislation; (2) the Department of Labor's final regulations (and their amendments) on housing investment of pooled assets; and (3) new litigation efforts against social investing initiatives. For more information, contact: Mike Leibig or Randy Rabinowitz, Zwerdling, Schlossberg, Leibig & Kahn, 1730 K Street, NW, Washington, DC 20006, (202) 223-6373.

#### The Complete Social Security Handbook, Bryce Webster and Robert L. Perry

This handbook provides answers to the most frequently asked Social Security questions including: (1) How does one obtain Medicare and Medicaid coverage? (2) What are the requirements for Supplemental Security Income? (3) How can one plan for retirement with Social Security, individual retirement accounts and Keogh plans? The book offers information on how to obtain benefits for eligible persons whether young, old, married, widowed, divorced, disabled, sick or well. In addition, it includes revisions resulting from the 1983 Social Security Amendments. For more information, contact: Dodd, Mead & Company, 79 Madison Avenue, New York, NY 10016, (212) 685-6464. Price--\$12.95.

A Corporate Reader: Work and Family Life in the 1980s, Children's Defense Fund (CDF)

This book is a collection of brief articles about working parents. Its purpose is to identify interrelationships among demographic, economic, political and social factors and how they have led to an increase in the number of working parents. CDF compiled these articles intending to stimulate new ideas on the working parent issue. Policymakers and practitioners have suggested various employee benefit programs (e.g., child care and flexible work schedules) to ease some of the burdens of working parents. To date, however, few businesses have focused on these issues. The methods of dealing with the changing work force that are developed by American business will be important to individual firms, the economy and the overall American population. For more information, contact: Children's Defense Fund, 122 C Street, NW, Washington, DC 20001, (202) 628-8787.

1982 Survey of National Corporations on Health Care Cost Containment, National Association of Employers on Health Care Alternatives (NAEHCA)

Escalating health care costs are of concern to policymakers, insurance companies and the public. Large employers, however, are particularly concerned because of their substantial contributions to employee health insurance coverage. NAEHCA, which represents a group of large employers, conducted three national surveys. The surveys, supported by the Atlantic Richfield Foundation, studied the extent of such large employer involvement in providing health care coverage. The surveys also examined the employers' establishment of health care cost containment programs.

Survey findings indicated: (1) companies with cost-containment programs tend to experience lower average health care cost increases; (2) "NAEHCA members had a 15.9 percent participation of employees enrolled in HMOs [Health Maintenance Organizations] versus 10 percent by non-member companies. This difference reflects to some extent the more positive orientation of NAEHCA companies to alternative delivery systems"; (3) offering an HMO option did not result in significant cost differences; (4) the number of wellness programs conducted by companies since the 1979 survey has increased by 100 percent. For more information, contact: NAEHCA, 1134 Chamber of Commerce Building, 15 South Fifth Street, Minneapolis, MN 55402, (612) 338-4823.

Encouraging Employer Support to Working Parents: Community Strategies for Change, Dana E. Friedman

This report assesses the nature and extent of employer responses to the needs of working parents. It considers programs such as: (1) child care (information and referral services, day care centers, family day care homes, after-school and sick-child care programs); (2) employee assistance programs (employee counselling and parent education programs); (3) alternative work schedules (flextime, part-time work, job sharing and work-at-home options); and (4) leave time. For more information, contact: Center for Public Advocacy Research, Inc., 12 West Thirty-Seventh Street, New York, NY 10018, (212) 564-9220.

CALL THE PUBLISHERS

The Employee Benefit Research Institute (EBRI) was established in 1978 to contribute to the development of public policy in the employee benefit field. EBRI, a nonprofit organization, has a broad membership that includes private sector companies and individuals with interests in employee benefit education, research and public policy.

EBRI also has a separate Education and Research Fund (ERF) which is operated exclusively to conduct charitable educational and research activities. The Fund is tax exempt under section 501(c) (3) of the Internal Revenue Code and is not a private foundation. EBRI Associates make contributions or grants to the Fund which are deductible as charitable contributions.

EBRI's policy forums, research studies, issue briefs, pamphlets and other publications aid public and private sector decision makers, managers, the press and the general public in formulating and articulating positions on employee benefit issues. As health and retirement issues receive increasing attention, the Institute strives to make effective and responsible contributions to public policy.

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**EBRI NOTES**, a bimonthly newsletter, includes information about: 1) newly released employee benefit statistics; 2) brief summaries of EBRI's ongoing research studies and forum discussions; and 3) reviews of outside research and publications.

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