

## Social Security Reform Proposals, p. 1

## Health Insurance Continues To Be Valued, p. 9

## EBRI in Focus, p. 12

## Washington Update, p. 13

## New Publications, p. 19

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Notes

### Keeping Track of Social Security Reform Proposals: A Summary

#### Introduction

Among policymakers across the political spectrum, there seem to be two main points of consensus about Social Security. The first is the necessity for reform. The second is that reform ought to involve private market investment of retirement taxes<sup>1</sup> and/or of national defined contribution-style savings in order to give taxpayers a better return on their money than the current system affords and thereby reduce national retirement program costs. Here agreement stops and debate about specific reform packages begins.

The Social Security Trustees stated in their 1996 annual report that, under intermediate assumptions about the economy and demographics, Social Security will be unable to meet its promises to beneficiaries by 2029. At this date, the trust fund surplus will be exhausted, and FICA tax revenue alone will be able to provide only 76 percent of benefits payable.<sup>2</sup>

Social Security surpluses are invested in U.S. Treasury bonds, which are projected to provide rates of return that exceed inflation by 2.3 percent.<sup>3</sup> This is a low rate of return relative to the average above-inflation yield of about 7 percent on equities over the past several decades.<sup>4</sup> Proponents of private market investment of

retirement taxes and/or of national defined contribution-style savings reason that investing in the equities market will provide better rates of return and thereby lower program costs. Some also believe switching retirement tax investment into the private sector will increase net savings and provide capital to spur economic growth. Advocates of allowing or mandating defined contribution-style savings within the national government retirement system similarly cite economic growth and increased savings as primary advantages.<sup>5</sup>

#### Reform Proposals

Although most major policymakers seem to agree that private investment of retirement taxes in equities will be part of any reform, exactly how to invest and to what extent has been a topic of hot debate. For example, the 13-member 1996 Social Security Advisory Council was assembled by the Secretary of Health and Human Services to propose a solution to the program's financing needs. The highly factionalized council is expected to release before the end of the year a much anticipated report delineating three reform packages, each proposing different means of investing varying proportions of retirement taxes in the equities market. In fact, dissenting views are expressed even among supporters of the same reform packages. Meanwhile, other reform proposals have been forthcoming from both legislators and public policy organizations.

(continued on p. 8)

Table 1  
A POINT-BY-POINT COMPARISON OF SOCIAL SECURITY REFORM PLANS

	MAINTENANCE OF BENEFITS REFORM PLAN (BALL)	INDIVIDUAL ACCOUNTS REFORM PLAN (GRAMLICH)	PERSONAL SECURITY ACCOUNT PLAN (WEAVER-SCHIEBER)	NATIONAL TAXPAYERS' UNION FOUNDATION (NTUF) NATIONAL THRIFT PLAN	PERSONAL INVESTMENT PLAN ACT OF 1995 (S. 824) AND STRENGTHENING SOCIAL SECURITY ACT OF 1995 (S.825) (KERREY- SIMPSON)	THE SOCIAL SECURITY SOLVENCY ACT (REP. NICK SMITH)	THE CATO INSTITUTE
<b>TYPE OF PLAN</b>	Defined benefit (DB)	DB and defined contribution (DC)	Phase out one-half of existing DB system; replace other half with a DC system. Remaining DB part of system is restructured to provide a flat benefit for all participants.	DC with a redistributive component (see below) for low earning workers and a minimum retirement income guarantee; all OASD <sup>a</sup> "elder" benefits (i.e., benefits for retired workers, aged spouses and widow[er]s) are phased out.	DB and DC	DB and variable DC, with decline in DB as DC component of new system grows.	Phase out current system with DC plan containing a "minimum guaranteed benefit" or a "floor benefit" provided by the government.
<b>INVESTMENT PLAN</b>							
<b>PRIVATE MARKET INVESTMENT?</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>WHO INVESTS?</b>	Federal government	Individuals	Individuals or their designated broker or financial institution	Individuals; government is default investor for those unable or unwilling either to manage their own funds or to hire a financial manager to do so.	Individuals and federal government	Individuals	Individuals
<b>INDIVIDUAL ACCOUNTS</b>	No	Yes, called individual accounts (IAs)	Yes, called personal savings accounts (PSAs)	Yes, called personal thrift accounts (PTAs)	Yes, called personal investment plans (PIPs)	Yes, called personal retirement savings accounts (PRSAs)	Yes, called personal retirement accounts (PRAs)
<b>INDIVIDUAL PARTICIPATION</b>	None	Mandatory	Mandatory for workers under age 55 in 1998	Mandatory, with allowance for extra voluntary contributions	Optional in S. 824; mandatory in S. 825	Optional	Mandatory, but those presently in the work force would have an option of remaining in current system or switching to new system.
<b>WHERE IS INDIVIDUAL ACCOUNT HELD?</b>	Not applicable	Like the Federal Thrift Plan, accounts are held by the federal government, but are separate from federal government assets and are not used in calculating the federal debt.	In private institutions designated by workers	Individuals place in private market	U.S. Treasury; like Thrift Savings Fund, some PIPs allowed in IRA <sup>b</sup> -type accounts. Administered by banks, credit unions, or other institutions subject to banking laws.	Individuals place DC account in private market.	Individuals choose private investment company.

<b>USE FICA REVENUE FOR INVESTMENT?</b>	Yes; invest part of trust fund accumulations that would otherwise be invested in U.S. Treasury bonds; gradual investment until 40% of trust fund accumulations are invested in private market securities by 2014.	No	Yes; invest 5 percentage points of the non-Medicare FICA rate (12.4%), paid only by the employee (remaining 7.4% used to finance the flat benefit, as well as survivors, spouse, and disability benefits).	Yes; any annual OASI operating surplus is credited, pro rata, to workers' PIAs.	In S. 825, yes; invest 25% of annual trust fund accumulations and 2% of employee's share of non-surplus, non-Medicare FICA; in S. 824, government does not invest trust fund accumulations, but 2% of employee's share of non-Medicare FICA is put into PIPs on an optional basis.	Yes, invest trust fund accumulations over 1 year's worth of benefits; specific % available for investment is based on how much people take in Social Security DB benefits, affecting how much surplus there is under 12.4% FICA; how much people take from DB part depends on accumulation rates in PRSAs; percentage of surplus available for investment is expected to be 2.3% for 1998.	Yes, the OASI portion of FICA
<b>INCREASE PAYROLL CONTRIBUTIONS?</b>	Yes; 0.8% on employers and employees (1.6% additional tax overall) beginning in 2045; non-Medicare FICA would then equal 14.0% total.	Yes; 1.6% on employees in 1998. DB part remains financed by 12.4% FICA; total FICA in 1998 would be 14.0%	Yes; by 1.52% on employers and employees for 70 years, beginning in 1998, to help finance the transition.	No, current law FICA remains initially unchanged; once OASI operating surpluses exceed 3% of payroll, FICA taxes are reduced. However, workers are required to contribute 5% of their earnings to PIAs (no employer contributions); contributions of low earners are matched by the government, with the subsidy phased out at three times the low wage threshold.	No	No	?
<b>PROPERTY OF BENEFICIARY'S ESTATE UPON DEATH?</b>	Not applicable	To spouse as if joint annuity	Yes	Yes	Yes	Yes	Yes
<b>TAX TREATMENT OF INDIVIDUAL ACCOUNT BENEFITS</b>	Not applicable	Employee contributions are after tax, while distributions are free of federal income taxes.	Individuals' contributions to PSAs are after tax, so distributions are tax free.	PTA contributions and capital accumulation are exempt from personal income taxation; distributions are fully taxable.	Like an IRA, PIP contributions and accumulations are tax free until distribution.	Contributions are not taxed; distributions are taxed same as Social Security income rules.	Presumably like IRA and 401(k) plans, distributions are taxable but contributions and earnings from PRAs are tax free (unconfirmed data).

TABLE 1 (CONTINUED)

	MAINTENANCE OF BENEFITS REFORM PLAN (BALL)	INDIVIDUAL ACCOUNTS REFORM PLAN (GRAMLICH)	PERSONAL SECURITY ACCOUNT PLAN (WEAVER-SCHIEBER)	NATIONAL TAXPAYERS' UNION FOUNDATION (NTUF) NATIONAL THRIFT PLAN	PERSONAL INVESTMENT PLAN ACT OF 1995 (S. 824) AND STRENGTHENING SOCIAL SECURITY ACT OF 1995 (S.825) (KERREY- SIMPSON)	THE SOCIAL SECURITY SOLVENCY ACT (REP. NICK SMITH)	THE CATO INSTITUTE
<b>INVESTMENT RULES</b>	Corporate bonds and equity index funds	Based on Federal Thrift Savings Plan—choose from a list of index funds administered by the Social Security Administration (SSA).	Assets are invested at the discretion of the worker but subject to regulations restricting them to retirement purposes and to investments in widely held financial instruments.	Federal oversight board determines % of assets required in risk-free debt and establishes diversification regulations; individuals select a certified financial manager of their choice, except that a federal board invests for workers unable or unwilling to do so themselves.	Based on Federal Thrift Savings Plan; option of two wide investment categories: (1) personal investment plan with low, moderate, and high risk options, and (2) IRA-like accounts with investment options exactly like current IRA options.	Similar to current IRA options, assets are invested at workers' discretion in U.S. securities, insurance contracts, certificates of deposit, common stocks, and/or other instruments or obligations selected by qualified professional asset managers.	Government regulations on portfolios; "reinsurance mecha- nisms" ensure fund solvency.
<b>FORM OF DISTRIBUTION RULES</b>	Not applicable	Mandatory minimum indexed annuity upon retirement, issued under SSA rules	Optional annuitization with withdrawal limits based on remaining life expectancy (not final)	Mandatory annuitization of minimum annuity; full freedom with remainder of funds	Assumed mandatory annuitization because of modeling after Federal Thrift Plan, but no explicit information found	?	Personal investment fund balances not available before "retirement," which is determined either by age or PSA balance.
<b>PRERETIREMENT LOANS?</b>	Not applicable	No	No	No	No	Undecided, but probably not.	?
<b>ACCRUAL OF ADDITIONAL FEDERAL DEBT REQUIRED?</b>	No	No	Yes, in addition to the 1.52% tax increase, "liberty bonds" would be issued by the federal government from 2002 through 2069 to finance the transition to the new system. Liberty bonds would equal about \$650 billion by 2030 and be repaid with the proceeds of the transition tax of 1.52%. Liberty bonds would be equal to 1.97% of taxable payroll annually.	Yes, a slight initial increase in the deficit would peak at \$45 billion (or 0.4% of gross domestic product [GDP]) in 2006; by 2014, this deficit turns into a surplus.	No	No	?
<b>AMOUNTS EXPECTED TO BE ALLOCATED TO INDIVIDUAL ACCOUNTS</b>	Not applicable	Approximately \$50 billion annually / \$1.2 trillion by the end of 2015 (1996 dollars)	Approximately \$3.3 trillion by the end of 2015 (1996 dollars)	Net annual savings in PTAs rises from 1.7% of GDP in 2000 to 3.4% of GDP by 2030	In S. 825, 2% of non- Medicare FICA; S. 824, optional, so allocation depends on behavioral response to PIP option.	\$2.33 trillion by 2015	?
<b>EXPECTED INCREASE IN NATIONAL SAVINGS?</b>	Not applicable	?	?	Raises net national savings by 2.6% of GDP by 2010 and by 5% of GDP by 2030.	No data found on S.825; S.824 is actuarially neutral.	?	?

<b>HOW MUCH NET ADDITIONAL REVENUE IS EXPECTED TO FLOW INTO STOCK MARKET ANNUALLY IN 1996 DOLLARS?<sup>c</sup></b>	Approximately \$25 billion on average	Approximately \$20 to \$25 billion on average	Approximately \$75 billion on average	Roughly one-half of PTA assets; 0.85% of GDP annually in 2000 rising to 1.7% annually by 2030.	?	\$78.1 billion in 1998; average per year 1998 through 2015 is \$129.5 billion.	?
<b>HOW MUCH NET ADDITIONAL REVENUE IS EXPECTED TO FLOW INTO PRIVATE CAPITAL MARKET BY 2015 IN 1996 DOLLARS?</b>	\$800 billion by 2015	\$500 billion by 2015	\$1.65 trillion by 2015	Total expected value of privately invested plan assets by 2015 is approximately 35% of GDP, rising to 55% of GDP by 2030.	?	Majority of PRSA balances expected to go into private capital market (see above).	?
<b>OFFSETTING REDUCTION IN SOCIAL SECURITY BECAUSE OF PRIVATE INVESTMENT</b>	Not applicable	Not applicable	No "offsetting" reductions, but note that workers aged 25 through age 54 in 1998 would receive a benefit that is a combination of the existing current-law defined benefit and new flat benefit, with amounts prorated to reflect time covered by old and new systems.	OASDI "elder benefits" are gradually phased out by reducing newly earned wage credits used in calculating future benefits.	?	For PRSA participants, present value of expected lifetime Social Security benefits is reduced by the present value in the PRSA, discounted at a rate of 4.3%	?
<b>MISCELLANEOUS REFORMS</b>							
<b>REDIRECT SOCIAL SECURITY TAX REVENUES FROM MEDICAID PART A HOSPITAL INSURANCE (HI) TO THE SOCIAL SECURITY TRUST FUND?<sup>d</sup></b>	Yes, at the time Medicare is refinanced; note that redirection would amount to a reduction in HI funds equivalent to 0.31% of taxable payroll.	No	Yes; note that redirection would amount to a reduction in HI funds equivalent to 0.31% of taxable payroll.	No	?	Yes; note that redirection would amount to a reduction in HI funds equivalent to 0.31% of taxable payroll.	?
<b>COVER NEW STATE AND LOCAL GOVERNMENT EMPLOYEES?</b>	Yes	Yes	Yes	Possibly	Yes	Yes	Yes
<b>BENEFIT REDUCTIONS FOR FUTURE RETIREES</b>							
<b>RAISE MINIMUM TAXES ON BENEFITS?</b>	Yes, tax under general income tax principles; taxes calculated individually; average taxable income would be 92%.	Yes, tax under general income tax principles; taxes calculated individually; average taxable income would be 92% on DB part; on DC part, contributions are after tax but tax free upon distribution.	For all aged 55 or over, one-half of benefits would be taxable; all Tier 1 benefits would be taxable; eliminate the AGI (adjusted gross income) threshold; on DC part, contributions are after tax but tax free upon distribution.	85% of all OASDI benefits subject to personal income taxes.	?	Yes, tax as general revenue	?

TABLE 1 (CONTINUED)

	MAINTENANCE OF BENEFITS REFORM PLAN (BALL)	INDIVIDUAL ACCOUNTS REFORM PLAN (GRAMLICH)	PERSONAL SECURITY ACCOUNT PLAN (WEAVER-SCHIEBER)	NATIONAL TAXPAYERS' UNION FOUNDATION (NTUF) NATIONAL THRIFT PLAN	PERSONAL INVESTMENT PLAN ACT OF 1995 (S. 824) AND STRENGTHENING SOCIAL SECURITY ACT OF 1995 (S.825) (KERREY- SIMPSON)	THE SOCIAL SECURITY SOLVENCY ACT (REP. NICK SMITH)	THE CATO INSTITUTE
<b>PHASE OUT INCOME THRESHOLDS?</b>	Yes	Yes	Yes	Yes	No	No	Not applicable
<b>INCREASE NORMAL RETIREMENT AGE (NRA) FASTER THAN CHANGE MANDATED BY THE 1983 AMENDMENTS (AGE 67 BY 2027)</b>	No	Yes, gradually increase NRA by 2 months annually beginning in 2000 until age 67 for those reaching age 62 by 2011; index to longevity thereafter (projected to be about 1 mo. every 2 yrs.); full benefit NRA equals age 69 by 2059.	Yes, gradually increase NRA by 2 months annually beginning in 2000 until age 67 for those reaching age 62 by 2011; index to longevity thereafter (projected to be about 1 mo. every 2 yrs.); this rate of increase to be reviewed every 10 yrs. by Congress.	No	Yes, to age 70 by 2029 (S. 825); indexed to longevity thereafter.	Yes, in 2002, NRA rises by three months per year until age 69 in 2000 to 2018, indexation thereafter to longevity.	Minimum retirement age is 65 for men and 60 for women, but retirement is also allowed if accumulations in individual accounts are high enough to provide income equal to or greater than a minimum standard.
<b>INCREASE EARLY RETIREMENT AGE (ERA)?</b>	No	No	Yes, gradually increase to age 65 in the year 2035 for DB part (not indexed) but DC part could be drawn on as early as age 62.	No	Yes, incremental increases beginning in 2002 until ERA is 65 by 2017; index after 2030.	Yes, gradually to age 65 from 2000 through 2011; tracks NRA to longevity after 2015, but four years behind.	Not applicable
<b>REDUCE COST- OF-LIVING ADJUSTMENT (COLA) BY REDUCING CONSUMER PRICE INDEX (CPI)?</b>	No, but assumes the annual CPI is reduced from Trustees' assump- tions by 0.21 percentage points.	No, but assumes the annual CPI is reduced from Trustees' assump- tions by 0.21 percentage points.	No, but assumes the annual CPI is reduced from Trustees' assump- tions by 0.21 percentage points.	Yes, by 0.5 percentage points.	Yes, by 0.5 % points; limit full COLAs to beneficiaries below 30th percentile; those above 30th percentile get only the COLA amount due those at the 30th percentile.	No	Not applicable
<b>CHANGE IN BENEFIT CALCULATIONS?</b>	Yes, best 35 years to best 38 <sup>th</sup> years (equals, on average, a 3% reduction in benefits by 1999).	Yes, best 35 years to 38 years, <sup>6</sup> and gradually scale back benefits for earners in the second and third tax brackets by changing formula (1) so that benefits can be financed with current 12.4% payroll tax and (2) so as to preserve current benefit level in real dollars.	Yes, for Disability Insurance (see below); also, the "Social Security" portion (the flat benefit) would now be based on years of coverage, not average earnings; retirement earnings test is eliminated by 2002.	Annual wage credits for OASI "elder" benefits are reduced by 5% per year so that no benefits are being earned after 20 years; in effect, this amounts to a pro rata cohort reduction in benefits where amount of reduction depends on year beneficiaries were born (or turn age 62).	Yes, change bend points to be more progressive (two different ways to do this in S.824 and S.825)	Best 39 years instead of best 35 years <sup>6</sup> ; also, change bend points to be more progressive.	Not applicable
<b>REDUCE SPOUSAL BENEFITS?</b>	No	Yes, to 33% of PIA (also see survivor's benefits).	No, spouses would receive the higher of their own retirement benefit, one-half of their retired spouse's benefit, or	New spousal benefits are phased out over 10 years.	Yes, change from a maximum of 50% of retired spouses' full benefit to 33% maximum.	Yes, change from a maximum of 50% of retired spouses' full benefit to 33% maximum.	Not applicable

one-half of the flat benefit (when fully phased in); spouses would receive proceeds from their own PSAs.							
<b>EFFECT ON DISABILITY INSURANCE (DI) AND SURVIVORS INSURANCE (SI)</b>	No change from current law.	Survivor's benefits would be higher of 75% of combined couples benefit or 100% of deceased worker's benefit.	Gradually reduce DI primary benefit payable as NRA increases to ensure DI benefits do not exceed benefits available through early retirement; results in a 30% reduction in DI benefits by 2038 (however, overall DI reductions would never fall below 70% of current law); increase aged survivors benefits (= 75% combined or 100% deceased worker's benefit); DI and SI still administered by SSA; no change in young survivors' benefit.	DI is unaffected, except that benefits are fully taxed; SI is phased out except for benefits to children, widowed mothers and fathers, and nonaged disabled widow(er)s.	No change in DI; surviving spouses inherit PIP accumulations.	Survivors would inherit PRSA amounts; primary insurance amount (PIA) <sup>f</sup> would not be reduced for people with PRSAs who are disabled and under age 60.	None; rationale: the disability and Medicare programs are separate issues and should be dealt with separately; note that retirement annuities purchased with PRA accumulations must include survivor benefits for dependents.
<b>MINIMUM GUARANTEED BENEFIT TO ALL WHO PARTICIPATE?</b>	No change from current law. <sup>9</sup>	No change from current law. <sup>9</sup>	Yes, for workers participating for 35 years, equivalent to \$410 per month in benefits (1996 dollars) from Tier I (DB part), indexed by growth of average wages; a smaller minimum benefit for workers participating fewer years; people with only 10 years participation get one-half of full-career worker's benefit.	Yes, all Americans aged 62 and over are guaranteed a total household income equal to 100 percent of the poverty line.	No change from current law. <sup>9</sup>	No change from current law. <sup>9</sup>	Yes, a "safety net;" minimum pension set to a benchmark such as minimum wage; if the PSA is insufficient to provide retirement annuity equal to monthly earnings at minimum wage, government would provide a supplement sufficient to make up the difference.
<b>BENEFIT REDUCTIONS AND/OR BENEFIT TAX INCREASES FOR CURRENT BENEFICIARIES</b>	No change in gross benefits, but net benefits are reduced by implementing new tax rules (see above).	No change in gross benefits, but net benefits are reduced by implementing new tax rules (see above).	Grandfather in persons age 55+ in 1998 but with new NRA, ERA, and tax rules.	One year COLA freeze, with COLAs thereafter set at the CPI minus 0.5 percentage points; 85% of all OASDI benefits are subject to personal income taxes.	COLA changes would apply to current beneficiaries, but no one over age 51 would be affected by age change.	Upper income beneficiaries who have already gotten out of the system what they and their employers contributed have benefits cut; none over age 58 would be affected by NRA/ERA increases; no one receiving spousal benefits before 2000 would be affected.	?

TABLE 1 (CONTINUED)

IMPLEMENTATION DATE	MAINTENANCE OF BENEFITS REFORM PLAN (BALL)	INDIVIDUAL ACCOUNTS REFORM PLAN (GRAMLICH)	PERSONAL SECURITY ACCOUNT PLAN (WEAVER-SCHIEBER)	NATIONAL TAXPAYERS' UNION FOUNDATION (NTUF) NATIONAL THRIFT PLAN	PERSONAL INVESTMENT PLAN ACT OF 1995 (S. 824) AND STRENGTHENING SOCIAL SECURITY ACT OF 1995 (S. 825) (KERREY- SIMPSON)	THE SOCIAL SECURITY SOLVENCY ACT (REP. NICK SMITH)	THE CATO INSTITUTE
1998, but investment of Social Security trust fund accumulations would not begin until 2000.		1998	1998	1998	1998	1998	?

<sup>a</sup>Old-Age and Survivors Insurance<sup>b</sup>Individual retirement account<sup>c</sup>All numerical data in this row, except for the National Taxpayers' Union Foundation plan, were provided by Steve Goss, Office of the Actuary, Social Security Administration.<sup>d</sup>At present, a portion of Old Age Survivors and Disability tax revenue is allocated to finance Medicare's Part A (Hospital Insurance) fund.<sup>e</sup>Currently, Social Security benefits are computed in a formula using the average of a worker's highest paid 35 years of work. This change would include three additional years into this formula. For most workers, chances are the addition of these three years will lower their average and thereby reduce their Social Security benefits, on average, by three percent.<sup>f</sup>The primary insurance amount is calculated to determine OASDI benefits. This means no benefit formula changes would apply for people with personal retirement savings accounts who are under age 60 and disabled.<sup>g</sup>Current law does not provide a specific dollar benefit minimum to all beneficiaries, but it does provide a minimum benefit in that the benefit formula is computed using a special minimum PIA for persons with many years of low wages.

(continued from p. 1)

As a result of the multitude and complexity of the reform plans, it is difficult to stay abreast of the debate. To provide a broad summary of these reforms, table 1 shows a point-by-point comparison of seven major Social Security reform packages. Keep in mind that some of the complexities and caveats of these reforms have been pared down in order to create a summary and that these plans may continue to evolve as the debate progresses.

This table includes the best information available at this time. A request for verification of the table's content was sent to each reform sponsor and to several plan supporters. A number of plan sponsors and supporters responded, and every effort was made to incorporate their revisions and suggestions. The author welcomes additional information and comments from readers.

—Kelly Olsen, EBRI

### Endnotes

<sup>1</sup>For the purposes of this article, the term retirement taxes only refers to revenue that is deducted from workers' payroll earnings for the purpose of funding a national retirement program.

<sup>2</sup>"Actuarial Status of the Social Security and Medicare Trust Funds," Social Security Bulletin (Summer 1996): 61.

<sup>3</sup>Henry Aaron "Behind the Privatization Rush," Washington Post, July 22, 1996, p. C1.

<sup>4</sup>Ibid.

<sup>5</sup>For example, Jose Pinera of the Cato Institute attributes Chile's increased savings rate of 26 percent of gross national product and its economic growth rate of 7 percent, double Chile's historic rate, to Social Security privatization (Jose Pinera, "The Success of Chile's Privatized Social Security," Cato Policy Report (July/August 1995): 10. In addition, Sylvester Schieber, co-sponsor of the Personal Security Account Plan, states his plan would "turn our Social Security system into a major engine of real savings for workers so they can both secure their own retirement income needs while also making a contribution to the future growth of the national economy" (Proposals for Retirement Policy Reform: Ensuring Our Workers' Retirement Security, Testimony before the Senate Labor and Human Resources Committee, Aging Subcommittee, July 16, 1996).



## Health Insurance Continues To Be Most Valued Benefit According to Recent EBRI/Gallup Survey

### Introduction

A 1996 survey conducted by the Employee Benefit Research Institute (EBRI) and the Gallup Organization, Inc., to determine public attitudes regarding the value of employee benefits found that individuals most value health care benefits, followed by retirement plans.<sup>1</sup> Individuals were asked to rank eight different types of benefits<sup>2</sup> in order of importance (chart 1). Health care was the most important benefit among 64 percent of those interviewed and the second most important benefit among 17 percent. A retirement plan was the most important benefit for 18 percent and the second most important benefit for 33 percent. While the response options have changed from the previous surveys, health benefits have consistently remained the most important benefit, with pension/retirement plans the next most important.

Fifty-three percent of those surveyed worked for a company that provided benefits for the surveyed employee, while 47 percent were not provided benefits. Among men, 62 percent were offered benefits, compared

with 45 percent of women. It is possible that this gender difference could be attributed to the distribution of men and women in full- and part-time positions. Part-time workers are less likely to receive benefits and are more likely to be female.

When asked about satisfaction with their current benefits package, 56 percent were satisfied with their benefits package, and 28 percent said they would rather have a different mix of benefits but at the same level of coverage. Seven percent would rather have more benefits and less pay, compared with 8 percent who would have preferred more pay and fewer benefits.

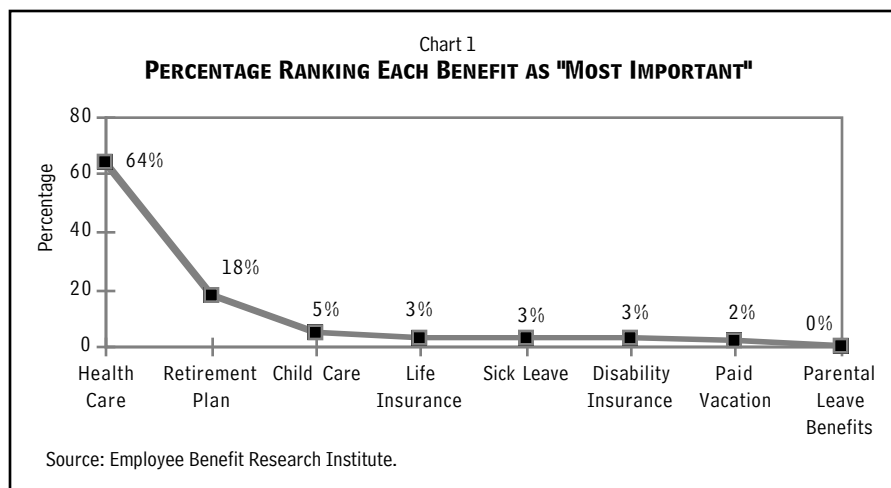
Seventy-eight percent of surveyed individuals felt that benefits (such as retirement plans, health benefits, vacation, sick leave, and life insurance) were very important when deciding to accept or reject a job offer, while 5 percent believed that benefits were not very important (2 percent) or not at all important (3 percent). In the 1991 EBRI/Gallup survey, 71 percent felt that benefits were very important in employment decisions, compared with 75 percent in 1992 and 68 percent in 1994 (chart 2).

There was little difference in the

responses to the preceding question among males and females, with 76 percent of males and 79 percent of females saying that benefits are very important to their decisions to accept or reject a job offer. Seventy-two percent of those aged 18–34 and 81 percent of those aged 35 and over felt this way. Differences existed among educational levels: 84 percent of respondents with a high school degree or less felt that benefits were very important in job decisions, compared with 72 percent of college graduates.

Respondents were asked if they had ever accepted, quit, or changed jobs because of the benefits, other than salary or wage level, that an employer offered or failed to offer. Twenty-one percent said they had. Responses to this question have remained constant over previous years.

Twenty-five percent of men and 19 percent of women had accepted, quit, or changed jobs because of the benefits offered. For those aged 18–34, 26 percent responded affirmatively to this question, compared with 27 percent of those aged 35–54 and 8 percent of those aged 55 and over. In terms of educational level,



21 percent of those with a high school degree or less said they had accepted, quit, or changed jobs because of the benefits. Twenty-four percent of college graduates said they had done so.

### **Reduced Pension Plan Contributions for Increased Health Benefits**

Caution should be exercised in interpreting the following findings, as respondents' current levels of health benefits and their type of pension plan (i.e., defined benefit plan versus defined contribution plan) are unknown. Thirty-eight percent said they would be willing to accept a reduction in employer contributions to a pension plan for increased health benefits (chart 3). When the same question was asked in 1994, 44 percent responded that they would accept the tradeoff, which may indicate an increased appreciation for, or education about, pension plan contributions from 1994 to 1996.

**Gender**—Males and females differed in their responses to this question, with 30 percent of males (43 percent in 1994) willing to accept the

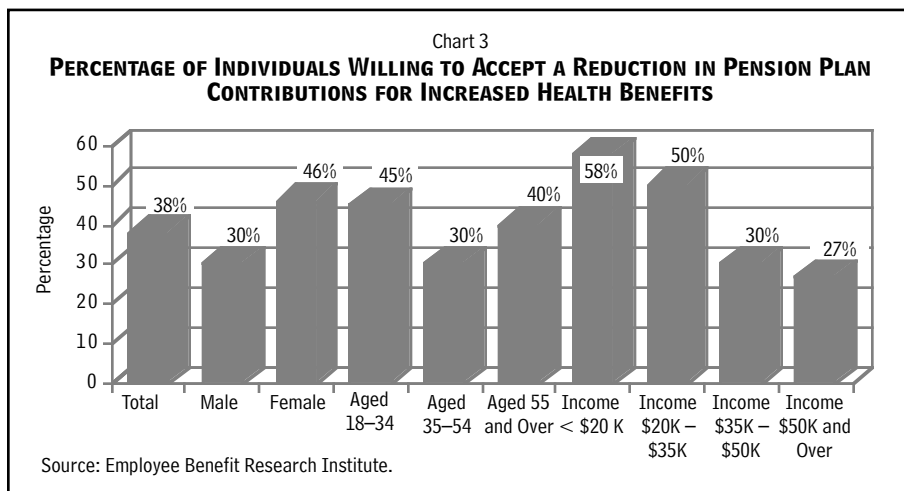
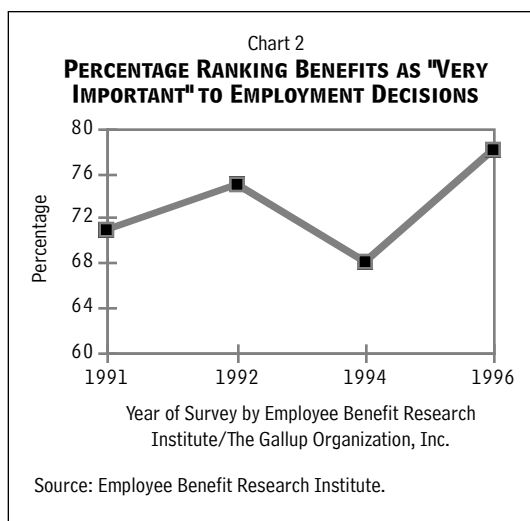
reduction, compared with 46 percent of females (no change since 1994), suggesting that perhaps women feel that health benefits are more important than retirement benefits. It appears that males view pension plan contributions as more valuable now than they did when asked in 1994.

**Age**—Since 45 percent (49 percent in 1994) of individuals aged 18–34 would be willing to make this tradeoff, compared with 30 percent (36 percent in 1994) of those aged 35–54, the results suggest that some younger persons seem to be less concerned about retirement security and may not have learned the importance of saving for

retirement early. (However, this would be influenced by enrollment in a defined benefit plan versus enrollment in a defined contribution plan.) The group aged 35–54 seems to realize that retirement is approaching and they need to save more now for a comfortable retirement in the future. This may be especially true for those who put off saving when they were younger. Forty percent of those aged 55 and over said they would accept the tradeoff, whereas 50 percent would have done so in 1994, indicating that pensions are more valuable to this age group now than they were two years ago.

**Income and Education**—Lower income individuals are most willing to accept reduced pension plan contributions for increased health benefits; 58 percent of those with incomes less than \$20,000 would accept this tradeoff. By comparison, 27 percent of upper income individuals would accept the tradeoff.

Educational level is a likely influence on these results. Lower income individuals are less likely to be knowledgeable about pension plans and more likely to perceive health benefits as more important. Of those



with a high school education or less, 46 percent would accept this tradeoff to receive increased health benefits, compared with 22 percent of college graduates. It is also possible that lower income individuals have fewer health benefits (39 percent of those with incomes less than \$20,000 receive health insurance through their employer or a family member's employer) to begin with, which influences their desire to trade pension benefits for health care benefits.

### ***Reduced Health Benefits for Increased Pension Plan Contributions***

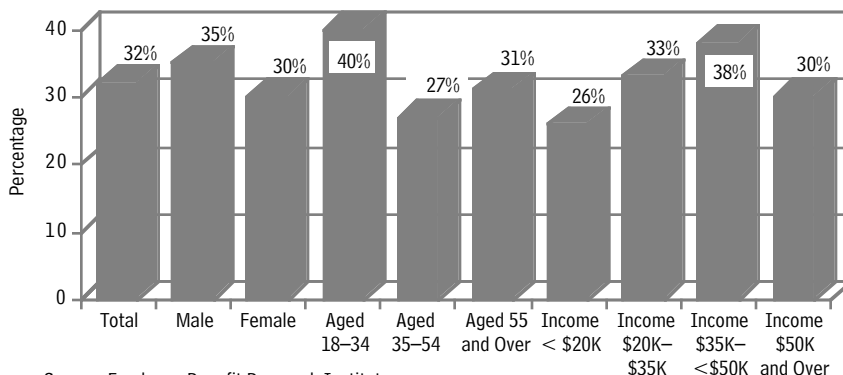
Thirty-two percent of respondents said that they would be willing to accept a reduction in employment-based health benefits for increased employer contributions to a pension plan (chart 4). There was little change in response to this question from the 1994 survey to the 1996 survey: 34 percent would have accepted the tradeoff in 1994.

**Gender**—When males were asked this question, 35 percent (36 percent in 1994) responded that they would accept the tradeoff, while 30 percent (32 percent in 1994) of females said they would accept it. Compared with the previous question, women are

far more likely to accept a reduction in pension plan contributions than a reduction in health benefits, suggesting that women perceive health benefits as more valuable than pensions. For men, the difference is not so vast, but more men would accept reductions in health benefits than would accept reductions in pension plan contributions.

**Age**—Among respondents aged 18–34, 40 percent (39 percent in 1994) said they would be willing to accept this reduction, compared with 27 percent (no change since 1994) among those aged 35–54 and 31 percent (37 percent in 1994) among those aged 55 and over. Contrary to the findings concerning the previous question, these responses suggest that it is the younger employees who would prefer increased employer contributions to pension plans and, therefore, are more concerned with retirement savings. However, when comparisons are made across demographics, higher percentages of younger individuals (aged 18–34) and also of older individuals (aged 55 and over) were more likely to choose health benefits than pension benefits.

Chart 4  
**PERCENTAGE OF INDIVIDUALS WILLING TO ACCEPT A REDUCTION IN HEALTH BENEFITS FOR INCREASED PENSION PLAN CONTRIBUTIONS**



**Income and Education**—There is little disparity between individuals at the low and high income levels in terms

of willingness to trade health benefits for increased pension plan contributions. Twenty-six percent of those earning less than \$20,000 and 30 percent of those earning more than \$50,000 would accept the tradeoff. Educational level corresponds to this response somewhat but not to the same degree that it corresponds with trading pension plan contributions for increased health benefits. Thirty-four percent of those with a high school degree or less and 26 percent of college graduates would make the trade.

### ***Conclusion***

The EBRI/Gallup survey data show that respondents perceive health and pension benefits as most important, with health benefits outweighing pension benefits. There are two possible explanations for this. First, educational level may play a role in individuals' beliefs about the importance of specific benefits; those with less education may be less knowledgeable about the necessity of a pension plan. They are far more aware of health issues that they currently face.

Second, retirement may not be

in the forefront of people's minds. It is possible that people view health care as an immediate need, while they perceive retirement to be a long way off and, therefore, not as important. Also, individuals with limited resources may feel the need to make a choice between health care and retirement, depending on their families' needs. If that is the case, chances are that individuals or families would view their health care needs as a priority.

—Pamela Ostuw, EBRI

### Endnotes

<sup>1</sup> *Employee Benefit Research Institute / The Gallup Organization, Inc., Public Attitudes on the Value of Benefits, 1996, EBRI Report G-63 (Washington, DC: Employee Benefit Research Institute, 1996).*

<sup>2</sup> *The eight benefits were: health care, retirement plans, child care, life insurance, sick leave, disability insurance, paid vacation, and parental leave benefits.*

## EBRI in Focus

### Retirement Confidence Survey

Results of the sixth annual EBRI/ASEC/Greenwald Retirement Confidence Survey were released Oct. 1 at a press conference at the National Press Club in Washington. The survey found, among other things, that more than one in five of today's retirees are worse off today than when they first retired. Almost 25 percent of retirees felt they will not have enough money to live comfortably through their retirement years.

A detailed analysis of the survey findings will be published soon as an *Issue Brief*. Key findings of the survey can be purchased now for \$12 by calling EBRI at 202/659-0670. Any organizations interested in sponsoring next year's survey should contact Paul Yakoboski at (202) 775-6329 or Deborah Milne at (202) 775-6361. Sponsors automatically become members of the survey's steering committee and will have the opportunity to discuss the survey results in detail prior to public release and receive a copy of the full tabulations for their own use.

### EBRI Presentations

Research Associate Paul Yakoboski spoke to the Executive Committee of the National Council on the Aging on Sept. 27 regarding trends and developments in the private pension system.

In the first half of September, Development Director Debbie Milne visited EBRI member organizations in Los Angeles and San Francisco.

She also did a presentation for the CalPERS Alternative Benefit Plan Workshop entitled "Benefit Design Considerations and Retirement Plan Choices," which has generated interest at CalPERS in joining EBRI. On Sept. 26, Debbie participated in two workshops for the First Annual SIA Conference on Retirement Issues on the topic, "Investment Education: Defining the Leading Edge," followed on Oct. 8 by a presentation at the SEI Sea Island Summit entitled "Retirement Benefits: An Outlook for the Next Century." On Oct. 22, BZW Barclays Global Investors sponsored a conference at which Debbie moderated a panel discussion by Robert Ball, Dr. John Shoven, and Dr. Edward Gramlich, who respectively presented each plan for Social Security reform currently proposed by the Social Security advisory panel. Debbie concluded the panel discussion with an overview EBRI's Social Security Project, a study that will provide a multi-phase analysis of the present Social Security system and the consequences of alternative reforms. More information on the project is available on EBRI's web site, located at <http://ebri.org/SSproject/SSListing.htm>. Initial results of the Social Security Project will be presented at a daylong policy forum Dec. 4 in Washington. For more information on the forum, contact Bill Pierron at 202/775-6353 or Pamela Ostuw at 202/775-6315.

### EBRI on the Hill

On Oct. 4, Research Associate Paul Yakoboski and Research Director

Jack VanDerhei presented a briefing on the implications of 401(k) plan asset allocations for retirement security and Social Security reform for congressional staff, EBRI members and the news media. On Oct. 25, Research Associate Paul Fronstin presented a briefing on sources of health insurance and characteristics of the uninsured. Both events were attended by congressional staff, representatives from EBRI member firms, and members of the news media.

Research Associate Paul Yakoboski testified before the Senate Special Committee on Aging on Sept. 24 regarding EBRI's research on worker investment decisions in 401(k) plans and the implications for Social Security reform.

### ***EBRI in the News***

The EBRI/ASEC/Greenwald Retirement Confidence Survey generated a significant amount of press coverage in October. Newspapers in Florida, Texas, Maryland, and California ran stories on the survey, and EBRI President Dallas Salisbury was interviewed by CNN. Research Associate Paul Yakoboski was interviewed by NBC/Mutual Radio and UPI Radio. USA Today featured survey results on attitudes toward Social Security in a page one story.

A data base search of 53 major U.S. newspapers for the period Sept. 1 through Sept. 30 yields 7 EBRI mentions.

## **Washington Update**

This edition of Washington Update addresses the employee benefits legislation enacted and left pending during the 104th Congress. In December, we will examine the outlook for benefits legislation in the 105th Congress.

The 104th Congress adjourned in a last minute flurry of legislative activity. For much of the session, it appeared that legislative action would be paralyzed by partisan bickering. However, by the end of the session, legislators were moving forward with bipartisan vigor. This bipartisanship manifested itself in the passage of the Small Business Job Protection Act, the Health Care Portability and Accountability Act, and amendments added to the VA-HUD appropriations bill dealing with mental health parity and minimum hospital maternity stays. Several other benefits-related provisions were enacted at the end of the session.

Although sweeping reforms were not on the table, Congress clearly showed it was willing to take an incremental approach to dealing with employee benefits issues. Also, perhaps most importantly, Republicans demonstrated that they can rally behind federally mandated health benefits when the circumstances are favorable.

### ***Enacted Retirement/Pension Bills***

**The Small Business Job Protection Act**—Signed into law in

August, P.L. 104-188 contains many of the pension simplification elements that plan sponsors have supported for years. See *Facts from EBRI 9/96* for a detailed list of provisions in the legislation.

Among its many pension-related elements, the Small Business Job Protection Act includes a new nondiscrimination safe harbor, repeal of sec. 415(e) limits, a new definition of highly compensated employees, modified distribution rules, repeal of family aggregation rules, USERRA technical changes, and the requirement that sec. 457 plan assets be held in trust. Additionally, the bill allows nonworking spouses to contribute up to \$2,000 to an individual retirement account (IRA), clarifies the employment tax status for independent contractors, and reinstates the sec. 127 education deduction.

One of the most significant elements of P.L. 104-188 is the establishment of the savings incentive match plan for employees (SIMPLE). SIMPLE plans are restricted to employers with 100 or fewer employees and may be offered as an IRA or a 401(k). Employers who offer the plan must make either dollar-for-dollar matching contributions up to 3 percent of pay for each participating employee, or a 2 percent nonelective contribution for all eligible employees. It remains to be seen whether SIMPLE will

lead to greater retirement plan participation by workers in small establishments.

**Outlook:** At this writing, a large number of technical issues regarding implementation of the Small Business Job Protection Act remain to be resolved. Because most provisions of the legislation take effect Jan. 1, 1997, guidance from the Treasury Department is eagerly awaited.

**Source Tax Repeal**—Signed into law Oct. 1, 1996, P.L. 104-95 was sponsored by Rep. Barbara Vucanovich (R-NV). This legislation amended the federal tax code to eliminate state taxation of pension income received by individuals who no longer reside in the state where they earned their pensions.

**Outlook:** The “source tax” bill was championed by retirees who had moved away from states with aggressive revenue recovery programs. This legislation applies to private and public pension income as well as income from IRAs.

### ***Pending Pension/Retirement Bills***

The following two bills were introduced relatively late in the session. They are likely to be reintroduced next year or form the basis for new legislative proposals in the 105th Congress.

**The American Workers Economic Security Act**—Sponsored

by Sen. Ted Kennedy (D-MA), this bill (S. 1668) would set up a nationwide pension system for all workers. The bill would require the Secretary of the Treasury to contract with private-sector entities that would serve as regional pension service centers throughout the country. Individual employees and employers could make elective and nonelective contributions directly to individual accounts through payroll deduction. Individual accounts would be treated like IRAs for tax and distribution purposes, although penalty-free withdrawals would be allowed for certain education expenses and during periods of unemployment.

**The Pension Pro-Save System**—Cosponsored by Sens. Jeff Bingaman (D-NM) and James Jeffords (R-VT). Similar to Sen. Kennedy’s proposal, this bill (S. 1923) would set up a new government entity, the Pension Portability Clearinghouse, that would contract with private-sector asset managers to operate a variety of investment funds. Employers and employees could make elective and nonelective contributions directly to the clearinghouse, which would maintain individual accounts and handle distributions. Employers who choose to make contributions would be required to make a nonelective contribution equal to 1 percent of compensation for each eligible employee.

**Outlook:** These proposals are

generating interest on both sides of the aisle. Members of Congress recognize that pension coverage remains sparse among lower income workers, and they recognize the need for raising the national savings rate. Proposals such as these would also bring “portability,” along the lines of a TIAA-CREF system.

Additionally, some members of Congress may believe that a pension clearinghouse system could form a step toward partial privatization of Social Security. Essentially, individual accounts funded through a payroll tax could be made mandatory for all workers, and benefit payments could be integrated with Social Security. While this outcome is purely speculative, these proposals warrant continued attention.

**The 401(k) Pension Protection Act**—This bill (S. 1837), sponsored by Sen. Barbara Boxer (D-CA), would amend sec. 407 of ERISA to bring 401(k) plans under the 10 percent limitation on investments in employer securities and real property that applies to all pension plans. Existing investments in 401(k) plans that exceed the 10 percent limitation would be “grandfathered” under the bill. Although the legislative language is unclear, the bill enjoys strong support. A related bill, S. 1927, also sponsored by Sen. Boxer, would prevent 401(k) plans from investing in “collectibles” and would require plans to provide detailed annual reports on investment holdings to all plan participants.

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**Outlook:** Both of Sen. Boxer's 401(k) bills have been included in the Women's Pension Equity Act (see below), and will be revisited in the 105th Congress.

**The Women's Pension Equity Act**—This bill (H.R. 4204/S. 2132) was introduced in the last days of the 104th Congress by Rep. Barbara Kennelly (D-CT) and Sen. Carol Moseley-Braun (D-IL). In addition to the provisions dealing with 401(k) plan assets, this proposal focuses on women's rights to pension income. The bill primarily deals with the rights of divorced spouses to federal employee and Railroad Retirement benefits and requires spousal consent for distributions from 401(k) plans. The bill also would repeal Social Security integration and set up a toll-free women's pension advice hotline in the Department of Labor.

**Outlook:** This bill fits in with the Clinton administration's focus on a "family friendly" work place, "pension security," and incremental reforms. It is very likely to be addressed next year.

**The Pension Audit Improvement Act**—Cosponsored by Sens. Paul Simon (D-IL) and James Jeffords (R-VT), S. 1490 went through several iterations during the 104th Congress, with markups delayed twice in 1996. The bill would eliminate limited scope audits, but the greatest source of contention was language in the original bill that would have required all plan

administrators to report to the Department of Labor within five days any evidence of criminal activities such as theft, embezzlement, or extortion that "may have occurred."

**Outlook:** Despite Sen. Simon's retirement, this bill will be revisited next year. The proposal is supported by the Clinton administration and fits in with the focus on "pension security."

**Retirement Policy Commission**—This bill (H.R. 3077), cosponsored by Reps. Earl Pomeroy (D-ND) and Nancy Johnson (R-CT), would have set up an 18-member commission to study retirement security issues. The legislation gave the commission one year to study trends in private retirement savings and develop recommendations to encourage and protect such savings.

**Outlook:** This bill, which is supported by some of the major benefits organizations, is likely to be revisited in the next session of Congress.

### ***Pending Social Security Bills***

No major Social Security reform legislation was enacted during the 104th Congress. The following bills should be viewed as setting the stage for further legislative action as awareness builds among policymakers of the long-term issues faced by the Social Security system.

**"Kerrey-Simpson"**—A package of eight interrelated bills (S. 818-825) cosponsored by Sens. Alan Simpson (R-WY) and Bob Kerrey (D-NE), that encompass a broad range of proposed changes in the Social Security system. The major provisions would do the following: allow workers to divert 2 percent of FICA taxes into personal investment plans, with a limited choice of investment options available; invest up to 25 percent of the Old Age and Survivors Insurance (OASI) trust fund accounts in a stock index fund; limit cost-of-living increases (COLAs) for those beneficiaries receiving above the 30th percentile of benefits paid; adjust the consumer price index formula downward; gradually raise the normal retirement age (NRA) to 70 by 2029 and the early retirement age (ERA) to 65 by 2017.

**The Social Security Solvency Act**—Sponsored by Rep. Nick Smith (R-MI), H.R. 3758 would establish a two-tier Social Security system. The first tier would be a basic benefit to provide retirement income and disability insurance, and the second tier would consist of personal investment accounts.

The benefit formula will be adjusted to slow future benefit growth and reduce benefits for upper income individuals. The average indexed monthly earnings (AIME) amount would be indexed to inflation minus 1.3 percent for higher income workers, which would reduce future benefit growth. The

NRA would rise to 69 in 2018. In subsequent years, the NRA would be indexed to maintain a constant ratio of life expectancy in relation to potential working years. The ERA would rise from 62 to 65 in 2011. After 2018, the ERA would track increases in the NRA, remaining four years lower. For widows and widowers, the ERA would remain two years lower than for other beneficiaries.

Funding for the personal accounts would be provided by the "surplus" amount not required to fund Old Age, Survivors and Disability Insurance (OASDI) on a pay-as-you-go basis; this provision would take effect in 1998. From that point onward, individual retiree benefits would be reduced proportionately based on workers' contributions to their personal investment account. Such contributions would vary, based on the amount attributable to the surplus.

**The Working Americans Wages Restoration Act**—Sponsored by Sen. John Ashcroft (R-MO), S. 1741 would have allowed workers to deduct the portion of FICA taxes that are directed to the Social Security program from their gross incomes. This proposal was put forward by the Kemp Commission and has been introduced in past sessions of Congress.

**The Social Security Preservation Act**—Cosponsored by a coalition of 52 GOP freshmen, H.R. 3636 would require that Social

Security trust fund assets be invested in marketable Treasury securities or government-insured certificates of deposit. Supporters have called the bill an "anti-raiding" measure, designed to protect the trust fund's future.

**Outlook:** Legislative action on Social Security should not be expected until after Congress has dealt with the near-term funding issues faced by the Medicare program. The leadership of both parties has called for a commission to look at the long-term future of the program, and both imply that little must be done in the short run. Incremental changes in the inflation formula, and similar changes, could come in the 105th Congress. The AFL-CIO took its first shot at "privatization" proposals on Oct. 17, with more likely to follow. As the debate heats up, a commission will most likely be appointed to absorb the political heat of reforms necessary for long-term system stability. The Social Security issue may be made worse by Medicare reforms, if positive Social Security cash flow is used to provide short-term relief for Medicare.

### ***Enacted Health Care Bills***

**The Health Insurance Portability and Accountability Act (HIPAA)**—Signed into law in August, 1996, P.L. 104-191 makes several changes in health care law.

First, group plans, insurers, and health maintenance organiza-

tions (HMOs) are restricted from denying coverage for preexisting conditions. Basically, the amount of time a health plan may deny coverage for a preexisting condition is reduced by the amount of time an individual has had "creditable" coverage under a previous health plan. Also, health plans and insurers may not discriminate in renewal or enrollment based on health status.

The new law also begins a trial use of medical savings accounts (MSAs), which are similar to IRAs but must be used in conjunction with a high deductible health plan. (A high deductible health plan is one with annual deductibles between \$1,500 and \$2,250 for individuals and \$3,000 and \$4,500 for families.) Penalty-free MSA withdrawals are allowed for qualified medical expenses but may not be used to pay conventional health insurance premiums. (They may be used to pay long-term care premiums.) The MSA trial is limited to 750,000 accounts over a four-year period ending in 2000. MSAs are available only to employees of businesses with 50 or fewer workers.

Additionally, the new law modifies the tax treatment of long-term care insurance to make it similar to the tax status of conventional health insurance. Individuals can deduct long-term care premiums to the extent that these premiums exceed 7.5 percent of adjusted gross income. Health insurance deductions for self-



employed individuals are increased gradually to 80 percent in 2006. Coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) is modified to provide 29-month eligibility for disabled beneficiaries of the covered individual. Finally, penalty-free IRA withdrawals are allowed for medical expenses that exceed 7.5 percent of adjusted gross income.

**Outlook:** While this bill will benefit some individuals who were denied coverage for preexisting conditions under prior law, the HIPAA is not likely to have a significant impact on the number of uninsured. It is also not clear whether the limited MSA provision will lead to a rush to set up these accounts. The miscellaneous provisions dealing with viatical settlements, long-term care insurance, and tax deductions for the self-employed will be welcomed by many individuals.

Many technical questions regarding the bill's implementation remain unanswered. Because the Department of Health and Human Services, the Treasury Department, and the Department of Labor are all charged with enforcement responsibilities, they may issue a joint interim rule in order to have a coordinated enforcement strategy.

**Medicare/Medicaid Data Bank Repeal**—Signed into law Oct. 2, P.L. 104-226 repeals the Medicare/Medicaid data bank that was originally authorized as part of the Omnibus Budget Reconciliation Act

of 1993. Its purpose was to aid the Health Care Financing Administration (HCFA) in recovering payments made by Medicare and Medicaid when a third party should have been the primary payer.

**Outlook:** The data bank would have required all health plan sponsors and insurers to report detailed information on covered dependents to HCFA. Funding was never appropriated for the data bank, and it met with widespread opposition in the employer community. Although Medicare and Medicaid fraud remain a serious problem, a solution such as this one probably will not be attempted again.

**48-Hour Minimum Maternity Stay and Mental Health Parity**—Both of these provisions, adopted as amendments to the VA-HUD appropriations bill, were signed into law as P.L. 104-204 on Sept. 26.

The maternity stay provision, which was supported by Sen. Bill Bradley (D-NJ), requires health plans and health insurers to provide a minimum 48-hour hospital stay for all new mothers and infants and a minimum 96-hour stay after cesarean sections. Earlier discharges are allowed but only if ordered by the attending physician, with the consent of the mother. Health plans may not offer financial incentives to encourage shorter stays. Health plans may impose deductibles and

copayments for such stays as long as they are not weighted to encourage early discharges.

The mental health parity provision, supported by Sen. Pete Domenici (R-NM), is not as clearly drafted and leaves a number of issues unresolved. It is important to note that the parity applies only to annual and lifetime dollar limits. Plans may continue to specify different limits on inpatient treatment, different cost-sharing requirements, and different standards relating to medical necessity. The parity provision does not require plans to offer mental health benefits, and employers with 50 or fewer employees are exempt. Chemical and substance abuse treatments are excluded.

Because of the way the legislation is drafted, it is possible to interpret it as applying only to plans that offer both mental and physical health benefits. If this is the correct interpretation, plan sponsors or health insurers could "carve out" mental health benefits and offer them under a separate plan, thereby avoiding the parity requirement altogether.

Finally, an amendment sponsored by Sen. Phil Gramm (R-TX) exempts any plan if its costs increase by one percent or more. This is probably the most ambiguous section of the bill because it does not specify how the cost is to be calculated, who is charged with calculating the cost, or who is given the responsibility of certifying the exemption.

**Outlook:** Both provisions take effect Jan. 1, 1998, so plan sponsors have time to adjust to the required changes. In the meantime, clarification is needed on the mental health parity provision. Employers and insurers should take note of the fact that these federal mandates received enthusiastic support from both sides of the aisle. This indicates that more attempts at federally mandated benefits may be expected in the next session of Congress.

### ***Pending Health Care Legislation***

**Medicare**—Medicare reforms proposed during the balanced budget debate last year were put on hold during the remainder of the 104th Congress. The Republicans' balanced budget reconciliation bill called for the establishment of Medicare Plus plans, through which eligible individuals would receive a payment that would be applied to Medicare coverage through traditional fee-for-service insurance; high deductible health plans in conjunction with MSAs; managed care plans; and union, Taft-Hartley, or association plans. Medicare spending increases were to be reduced by \$270 billion under the baseline over the next seven years, and a budget "fail-safe" mechanism effective for fiscal year 1998 and beyond would have automatically reduced Medicare spending if it were anticipated that spending would exceed budget targets during the next fiscal year.

President Clinton vetoed the budget reconciliation, citing Medicare "cuts" as one of his reasons for doing so.

**Outlook:** As the Medicare Trustees continue to revise downward the estimated date at which all currently legislated cash income will become insufficient to pay benefit costs (now projected at sometime around the year 2000), members of both parties are becoming increasingly aware of the issue. If no action is taken to reform the program, over the full period of projection used by Trustees, either benefits will have to be reduced by 77 percent or taxes increased by 335 percent.

The fact that Social Security is running a positive cash flow may be taken advantage of to buy time, at least for a few years. Any attempts to "save" Medicare will almost certainly rely on increased use of managed care combined with higher deductibles, especially on the part of upper income retirees. Reduced growth in provider payments may also become part of the mix. Lawmakers understand that the Medicare issue must be addressed soon.

### **The Patient Right to Know**

**Act**—During the final weeks of the 104th Congress, the Senate defeated an attempt by Sen. Ron Wyden (D-OR) to attach S. 2005/H.R. 2976 as an amendment to an appropriations measure. This bill, cosponsored by Reps. Greg Ganske

(R-IA) and Edward Markey (D-MA) in the House, would prohibit managed care plan contracts from limiting what physicians can tell their patients about available treatment options. Managed care organizations argue that such restrictions would undermine their ability to control costs.

**Outlook:** This measure enjoys support in the House and Senate among both liberals and conservatives; it is also supported by the Clinton administration. On the left, support for the measure reflects deep-seated distrust of "corporate" interests controlling the health care system. On the right, support comes from physicians and other professionals who feel their autonomy is threatened by managed care. The issue is sure to resurface in the next session of Congress.

—Bill Pierron, EBRI

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## 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].

The Alexander Consulting Group, Inc.  
**The COBRA Guide.** \$50. The Alexander Consulting Group, Inc., 222 Merrimac Street, P.O. Box 926, Newburyport, MA 01950, (508) 465-5374.

Beam, Burton T., and John J. McFadden. **Employee Benefits**, 4th edition. \$55.95. International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, WI, 53008-0069, (414) 786-6700.

Block, Richard N., John P. Beck, and Daniel H. Kruger. **Labor Law, Industrial Relations and Employee Choice: The State of the Workplace in the 1990s.** Cloth, \$24; paper, \$14. W.E. Upjohn Institute for Employment Research, 300 South Westnedge Avenue, Kalamazoo, MI 49007-4686, (616) 343-5541.

CCH Incorporated. (1) **Internal Revenue Code.** \$42.50. (2) **Income Tax Regulations.** \$62.50. CCH Incorporated, 4025 West Peterson Avenue, Chicago, IL 60646-6085, (800) 224-8299.

Carter, Marshall N., and William G. Shipman. **Promises to Keep: Saving Social Security's Dream.** \$24.95. Regnery Publishing, Inc.,

422 1st Street, SE, Washington, DC 20003, (202) 546-5005.  
Danzinger, Sheldon, and Peter Gottschalk. **America Unequal.** \$26. Harvard University Press, Publicity Department, 79 Garden Street, Cambridge, MA 02138-1423, (800) 448-2242.

Health Insurance Association of America. **Source Book of Health Insurance Data.** \$20. Health Insurance Association of America, 555 13th Street, NW, Suite 600, Washington, DC 20004-1109, (202) 824-1810.

The Investor Protection Trust.  
**Investor Knowledge Survey: A Report on the Findings.** Free. The Investor Protection Trust, 1901 North Fort Myer Drive, Suite 1012-1014, Arlington, VA 22209, (703) 276-1116.

Lloyd, Michael E., and Bruce J. McNeil. **401(k) Plans: A Comprehensive Planning and Compliance Guide.** \$105. Wiley, 605 Third Avenue, New York, NY 10158, (212) 850-6336.

The Olsten Forum on Human Resources and Trends. **Staffing Strategies.** Free. Olsten Corporation, 175 Broad Hollow Road, Melville, NY 11747-7800, (516) 844-7800.

Posner, Richard. **Aging and Old Age.** \$29.95. The University of Chicago Press, 5801 South Ellis Avenue, Chicago, IL 60637, (312) 702-7740.

Research Institute of America. **RIA's Complete Analysis of the Small Business, Health Insurance and Welfare Reform Acts of 1996.** \$45. Research Institute of

America, 90 5th Avenue, New York, NY 10011, (800) 431-9025.  
Smith, James P. **Unequal Wealth and Incentives to Save.** \$6. RAND, 1700 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138, (310) 451-7002.  
Society for Human Resource Management. **Issues Management Program. Tax Reform: A Strategic Issue Brief.** Members, \$30; nonmembers, \$40. Society for Human Resource Management, 606 North Washington Street, Alexandria, VA 22314, (703) 548-3440.

U.S. General Accounting Office.  
(1) **401(k) Pension Plans: Many Take Advantage of Opportunity to Ensure Adequate Retirement Income.** (2) **Health Insurance for Children: Private Insurance Coverage Continues to Deteriorate.** (3) **SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs.** Order from GAO.

### *Documents Available on the Internet*

#### **GAO recent reports**

<http://www.gao.gov/new.items/newtitle.htm>

#### **The 1994 Green Book Overview of Entitlement Programs**

<http://aspe.os.dhhs.gov/GB/gbpage.htm>

#### **Remarks By Martin Slate Executive Director**

Pension Benefit Guaranty Corporation Before The National

(continued, back page)

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## Documents available on the Internet (continued)

Employee Benefits Institute  
Washington, D.C. September 17, 1996  
<http://www.pbgc.gov/nebi96.htm>

### **HealthGate/free Medline**

<http://www.healthgate.com/HealthGate/>

[MEDLINE/search.shtml](http://www.homefair.com/homefair/cmr/salcalc.html)

### **The Relocation Salary Calculator**

<http://www.homefair.com/homefair/cmr/salcalc.html>

### **The Panel Study of Income Dynamics**

<http://www.umich.edu/~psid/>

*EBRI Notes* (ISSN 1085-4452) is published monthly at \$300 per year or is included as part of a membership subscription by the Employee Benefit Research Institute, 2121 K Street, NW, Suite 600, Washington, DC 20037-1896. Periodicals postage paid in Washington, DC. POSTMASTER: Send address changes to: *EBRI Issue Brief*, 2121 K Street, NW, Suite 600, Washington, DC 20037-1896. Copyright 1996 by Employee Benefit Research Institute. All rights reserved, Vol. 17, No. 11

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