notes

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◆ Changing Roles of Defined Benefit and Defined Contribution Plans

Since the enactment of the Employee Retirement Income Security Act (ERISA) in 1974, employer-sponsored retirement plans have changed significantly. While the number of employer-sponsored pension plans and plan participants is increasing, proportionately fewer employers are offering traditional defined benefit plans and more are offering a diverse array of new defined benefit plans, defined contribution plans, and hybrids.[1] The increasing prevalence of these plan types has implications for retirement income security in that it shifts the burden of planning for retirement from employers to individuals. Plan participants are increasingly being required to take responsibility for decisions regarding participation, how much current pay to defer, how the funds should be invested, and whether to save deferrals for retirement or spend them earlier. Observers disagree over the implications of these changes for the security of future retirees' income. The Bush administration favored a mix of individual effort and an employment-based system, increasing individual "empowerment" while encouraging increased saving for retirement. The Clinton administration may more strongly seek to expand the defined benefit system while encouraging the establishment of new defined contribution plans and preservation of lump-sum distributions until retirement.

Participation and Plan Trends

Between 1975, when ERISA became effective, and 1988, the latest year for which figures are available, the number of tax-qualified employer-sponsored plans more than doubled, from 311,000 to 730,000, and gross participation (active workers, separated vested workers, survivors, and retirees) in these plans rose from 45 million to 78 million (table 1). The number of private defined benefit plans increased from 103,000 in 1975 to 175,000 in 1983, then decreased to 146,000 in 1988. There were 33 million gross participants in defined benefit plans in 1975. Participation increased to 40 million in 1983 and has remained in the 40 million–41 million range since that time. Between 1975 and 1988, the number of defined contribution plans increased from 208,000 to 584,000; the number of gross participants in these plans increased from 12 million in 1975 to 37 million in 1986 and remained at that level in 1988.

Data from the Internal Revenue Service's (IRS) Office of Employee Plans and Exempt Organizations indicates a recent flattening of the defined contribution growth trend. In fiscal 1990, the number of defined contribution terminations exceeded the number of new plans established for the first time since the passage of ERISA. The two were equal in fiscal 1991.

Many defined contribution plans are supplemental plans offered to participants with primary defined benefit plans. Between 1975 and 1987, the proportion of total

[1]In a defined benefit plan, each employee's future benefit is determined by a specific formula, and the plan provides a guaranteed level of benefits on retirement. Employees typically do not contribute to defined benefit plans, and a separate account is not maintained for each employee. In a defined contribution plan, employers generally promise to make annual or periodic contributions to accounts set up for each employee. Contributions to these plans may be made by the employer only, the employee only, or both. The level of benefits paid from defined contribution plans is not guaranteed.

In This Issue

Table 1
Private Pension Plans and Participants

Summary of Private-Sector Qualified Defined Benefit and Defined Contribution Plans and Participants, 1975–1988

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
							(thousands)							
Total Plans	311	360	403	443	471	489	546	594	603	601	632	718	733	730
Defined benefit[a]	103	114	122	128	139	148	167	175	175	165	170	173	163	146
Defined contribution[a]	208	246	281	315	331	341	378	419	428	436	462	545	570	584
Defined contribution as percentage of total	67%	68%	70%	71%	70%	70%	69%	71%	71%	73%	73%	76%	78%	80%
							(millions)							
Gross Participation	45	48	50	52	55	58	61	63	69	74	75	77	78	78
Defined benefit[b]	33	34	35	36	37	38	39	39	40	41	40	40	40	41
Defined contribution[b]	12	13	15	16	18	20	22	25	29	33	35	37	38	37
Defined contribution as percentage of total	26%	28%	30%	31%	33%	34%	36%	39%	42%	45%	47%	48%	49%	48%
Active Participants	31	32	33	34	35	36	37	37	39	40	40	41	42	c
Primary plan is defined benefit	27	27	28	29	29	30	30	29	30	30	29	29	28	c
Primary plan is defined contribution	4	5	5	5	6	6	7	8	9	10	12	13	13	c
Percentage with primary defined contribution	13%	14%	16%	16%	17%	17%	20%	22%	24%	25%	29%	31%	32%	c
Supplemental defined contribution[d]	6	7	8	8	9	10	11	12	14	15	16	16	16	c
Percentage with supplemental defined contribution[d]	19%	22%	23%	24%	27%	28%	29%	32%	36%	39%	40%	39%	39%	c

Source: Employee Benefit Research Institute tabulations based on John A. Turner and Daniel J. Beller, eds., *Trends in Pensions,* second edition (Washington, DC: U.S. Department of Labor, 1992).
[a]Excludes single participant plans.
[b]Active, separated vested, survivors, and retired. Not adjusted for double counting of individuals participating in more than one plan.
[c]Data not available.
[d]Primary plan may be either defined benefit or defined contribution.

private pension plan active participants with a supplemental defined contribution plan grew from 19 percent to 39 percent, and the proportion with primary defined contribution plans grew from 13 percent to 32 percent (table 1). Small employers with fewer than 100 pension plan participants are more likely than large employers to form primary defined contribution plans.

At the same time that the popularity of defined contribution plans was increasing, some employers, particularly small ones, began eliminating their defined benefit plans. Between 1982 and 1988, the number of defined benefit plans provided by employers with fewer than 100 participants declined 22 percent, from 150,000 to 123,000. Defined benefit plans sponsored by large employers remained in the 25,000–26,000 range between 1980 and 1985 before declining to 23,000 in 1988. However, it has been suggested that many larger businesses that supplemented their defined benefit plan with a defined contribution plan may have kept benefits in the former constant and increased benefits to employees through the supplemental plans. Furthermore, some employers that have maintained their defined benefit plans are moving away from purchasing annuities and are offering lump-sum distributions instead. Employees may either roll over lump-sum distributions into another retirement arrangement or spend them. Increasing numbers of large employers have adopted cash balance plans, which are essentially a defined benefit/defined contribution hybrid.

Implications for Employees

Defined contribution plans and newer defined benefit plans require individuals to take more responsibility for planning their retirement than traditional defined benefit plans. Under a traditional defined benefit plan, plan sponsors promise participants a specified monthly benefit on retirement, and the sponsors absorb the investment risk. With a defined contribution plan, employees accept investment risk and generally determine how their contributions are to be invested. Both defined benefit plans offering preretirement lump-sum distributions and defined contribution plans generally allow participants to decide whether to preserve pension distributions until retirement or spend them.

Employees—particularly those who are young and mobile—often receive a higher benefit from defined contribution plans than they would from comparable defined benefit plans, even assuming the same investment income.[2] However, defined contribution plans work best for participants when they elect to participate, invest plan assets appropriately, and preserve their benefits until retirement.[3] The decision to participate in 401(k) plans, a type of defined contribution plan, is generally voluntary and contingent on employee contributions, and participants often direct the investment allocation of the money they contribute. In 1988, 30.8 million workers, or 30 percent of nonagricultural wage and salary workers, were eligible for participation in a 401(k) plan.[4] However, only 53 percent of those eligible contributed to their plan during that year. Participants in defined contribution plans tend to manage their funds conservatively, preferring low-risk, low-return investments. In recent surveys, 401(k) plan participants described themselves as conservative investors who prefer to direct their own investments toward insurance and bank contracts. Comparing the value of $100 invested for 65 years (from 1926 to 1990) in stocks, an aggressive investment, with $100 invested more conservatively in bonds and Treasury bills shows the potential losses incurred by investing too conservatively. The 1990 value of $100 invested in common stocks, using the S&P 500 stock index, would be $49,943, compared with $2,711 if the $100 had been invested in corporate bonds, $2,031 if it had been invested in long-term government bonds, and $1,042 if it had been invested in U.S. Treasury bills.[5]

Defined benefit plan participants are increasingly being offered a lump-sum distribution option. Lump-sum distributions are generally available under defined contribution plans. It is the individual's decision whether to roll over a lump-sum distribution into an individual retirement account (IRA) or another tax-qualified retirement savings vehicle on job change. Many individuals receiving lump-sum distributions in the past have spent their distributions. According to Employee Benefit Research Institute tabulations of the May 1988 Current Population Survey employee benefit supplement (CPS ebs), among the 7.1 million lump-sum recipients who reported the amount of their most recent lump sum, these distributions amounted to $48 billion, or an average of about $6,800 per recipient, in constant 1988 dollars. Only 13 percent of recipients reported using at least some of their distribution for tax-qualified savings.[6]

Recent Legislation/Regulation

Recently, policymakers have taken action to encourage preservation of lump-sum distributions and improve employee investment education.

Encouragement of the Preservation of Lump-Sum Distributions—Recently enacted changes in tax withholding on lump-sum distributions are likely to increase the amount of money preserved for retirement by imposing a 20 percent withholding tax on lump-sum distributions if the employee does not elect to have the employer make a direct transfer to another employer-sponsored plan or qualified retirement arrangement (Unemployment Compensation Amendments of 1992, P.L. 102-318). The law still allows employees to decide whether or not to save their distribution, but it encourages prompt rollover of these funds. The law also liberalizes current pension rollover rules.

Encouraging More Informed Investment Decisions—The U.S. Department of Labor recently released the final ERISA section 404(c) regulations for pension plans that allow participants to direct the investment of their account funds. The 404(c) regulations are intended to encourage plan sponsors' compliance by relieving them of fiduciary liability for any loss resulting from participants' investment decisions if plan sponsors provide

[2] For a full explanation, see Employee Benefit Research Institute, "Pension Portability and What It Can Do for Retirement Income: A Simulation Approach," *EBRI Issue Brief* no. 65 (Employee Benefit Research Institute, April 1987); and Employee Benefit Research Institute. "Pension Portability and Preservation: Assuring Adequate Retirement Income into the 21st Century," EBRI Policy Forum, Washington, DC, May 2, 1991.

[3] Some participants may be better off spending benefits before retirement if they would otherwise take out a loan with higher interest payments than the investment income gained by preserving benefits until retirement.

[4] EBRI tabulations of the May 1988 Current Population Survey employee benefit supplement.

[5] See Fidelity Distributors Corporation, *Planning for Your Future* (Boston, MA: Fidelity Distributors Corporation, n.d.).

[6] See Joseph S. Piacentini, "Preservation of Pension Benefits, *EBRI Issue Brief* no. 98 (Employee Benefit Research Institute, January 1990).

participants with "meaningful, independent control" over the assets in their accounts.[7] Participants of section 404(c) plans would have the opportunity to make informed investment decisions and choose from a broad range of diversified investment alternatives.

In general, the final rules state that, in order to exercise control over assets, participants must be able to:

- choose from at least three different "core" investment alternatives with "materially different risk and return characteristics";
- diversify investments;
- switch the investment of any portion of their account among the three or more investment options with a frequency that is appropriate in light of the investment's market volatility but not "less frequently than once within any three month period"; and
- receive sufficient information about the plan and available investment alternatives to be able to make informed investment decisions; other information must be provided at the participant's request.

Together, the three or more investment alternatives would have to give participants the opportunity to "achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate." Each of the core investment alternatives would have to be diversified to minimize the risk of large losses. The three or more investment alternatives would have to be diversified such that "each alternative, when combined with investments in each of the other categories, must tend to minimize through diversification the overall risk of a participant's or beneficiary's portfolio."

According to a recent study by Bankers Trust Company, the majority of plan sponsors will have to alter their investment options should they choose to comply with section 404(c) regulations.[8] While most plans surveyed offer a sufficient number of investment funds from which participants may choose, these options may not meet the diversification requirements necessary for compliance. The average number of investment options offered by surveyed plans was 3.8 funds, with 57 percent of plans offering 4 or more options and 33 percent offering at least 3 options. Only 10 percent of surveyed plans offer fewer than three investment options. However, 80 percent of surveyed plans with three investment options include employer company stock, which does not qualify as a core investment because of its lack of diversification. Furthermore, 80 percent of plan sponsors providing three investment options offer guaranteed investment contracts (GICs), which may be a core investment only if they meet transfer requirements allowing funds to be accepted or transferred out at least once every three months, if the funds backing the GIC are sufficiently diversified, and if the plan discloses the required information about the GIC option. Between 75 percent and 90 percent of surveyed plans with four or more investment options offer employer company stock as an option, and between 77 percent and 83 percent offer GICs as an investment option.

The extent to which employers will choose to comply with 404(c) regulations is uncertain. Plan sponsors are not required to comply with 404(c) regulations, and the regulation is general and does not provide a safe harbor for employers that choose to comply. Fiduciary liability still exists for selection of the investment managers and options included in the plan and for individual transactions where 404(c) regulations are not met. Non-404(c) plans may offer prudent and well-diversified investment choices that still meet ERISA's general fiduciary requirements.

Many plan sponsors will also have to increase the frequency with which they allow fund transfers, if they choose to comply with 404(c) regulations. According to the Bankers Trust survey, 54 percent of surveyed plans allow transfers at least four times a year. However, these plans may still need to alter their transfer provisions if the investment options are determined to be too volatile. Volatile investments may require more fund transfers.

While the roles of defined benefit and defined contribution plans have changed, it is not clear whether employees will benefit from the changes. Many employees have the opportunity to save more for retirement with a defined contribution plan or hybrid, but it is up to the individual to make the pension system work for him or her. The evidence from the May 1988 CPS ebs[9] suggests that the type of pension plan employers offer is not as

[7]The regulation does not provide a safe harbor for employers that choose to comply.

[8]The study surveyed 171 companies with 201 plans, 3.5 million participants, and $135 billion in assets.

[9]This survey is scheduled to be conducted again in April 1993.

important as the preservation of pension lump-sum distributions for furthering retirement income gains. Since a relatively small proportion of total lump-sum amounts are currently preserved on a tax-favored basis, the value of retirement income benefits could be improved substantially through the preservation of pension benefits. The Bush administration took action to improve employee investment education and encourage the preservation of lump-sum distributions. The Clinton administration will likely continue to encourage the preservation of retirement benefits and the establishment of new defined contribution plans and also encourage the expansion of the defined benefit system. A new national commission on retirement policy, similiar to the one called for in the last two tax bills that were vetoed, is likely to be established and to be the next body to formally look at these issues. Congress is likely to continue to enact incentives for both types of plans and also for the preservation of lump-sum distributions. Employers and financial institutions are also working to provide better education to their employees to enable them to make investment decisions that match their retirement goals.

—Celia Silverman, EBRI

◆ Benefits Are a Substantial Component of Total Compensation

Employee compensation is one of the more significant employer costs, with benefits representing an increasing share of that cost. This article examines employer costs for total compensation and the portion of total compensation attributable to both benefits—specifically noncash benefits[10]—and wages and salaries. Data are drawn from a survey conducted by the U.S. Department of Labor, Bureau of Labor Statistics (BLS), with adjustments made in order to examine noncash benefits.

Although most analysts agree that the cost of providing employee benefits is increasing, there is disagreement over what should be included in the benefits component when calculating these costs. One survey of total compensation costs conducted by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA), *The Survey of Current Business*, counts cash benefits as part of wages and salaries. The data in this survey are only available after a time lag, with the most recent available data representing benefit year 1990. Data from the BLS survey of total compensation, *Employer Costs for Employee Compensation*, become available more quickly, with the most recent data reflecting compensation costs in March 1992. The BLS survey counts cash benefits as benefits rather than wages and salaries. For purposes of comparison, EBRI has adjusted the BLS survey data so that cash benefits are counted as part of wages and salaries.

After adjusting the BLS data, the results of the two surveys are similar, with only small differences that can be partly attributed to different data collection methodologies. The BLS surveys a sample of businesses, then averages their cost levels using employment weights.[11] The BEA gathers data from various government sources to determine employer compensation expenditures and uses judgmental trends to predict total compensation. Table 2 summarizes the results of both surveys, including the adjustments to the BLS.

[10]Benefits can be divided into cash and noncash benefits. Noncash benefits are generally tax advantaged components of an employee's total compensation. Examples of this benefit type include health insurance, which is tax exempt, and pension plans, which are tax deferred. Cash benefits are taxed as income to an employee. Examples of these types of benefits are paid leave and overtime and premium pay.

[11]Average cost levels are computed by using data from the Bureau's Current Employment Statistics Program and the sample weights derived from the survey of businesses.

Table 2
Comparisons of Total Compensation Surveys, Data Year 1990

	Bureau of Economic Analysis	Bureau of Labor Statistics	
	Survey	Survey	Adjusted[a]
Total Compensation	100.0%	100.0%	100.0%
Wages and Salaries	81.8	72.4	84.5
Benefits	18.2	27.6	15.5

Source: Employee Benefit Research Institute tabulations of data from the following surveys: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business, February 1992* (Washington, DC: U.S. Government Printing Office, 1992); U.S. Department of Labor, Bureau of Labor Statistics, *Employment Cost Indexes and Levels, 1975–91* (Washington, DC: U.S. Government Printing Office, 1991).
[a]Figures are adjusted to Bureau of Economic Analysis definitions of wages and salaries and benefits. All figures are for private industry only.

The BLS survey provides information about total compensation costs by industry, occupation, and establishment size, characteristics that are important predictors of an employer's total compensation costs.

Industry

Several factors influence compensation costs among industry groups. One of the most important is the composition of an industry's work force. Industries with higher concentrations of unionized workers, lower job turnover, more highly educated workers, and a higher ratio of full-time to part-time workers tend to have higher total compensation costs and to pay a higher percentage of these costs as benefits.[12]

Goods producing industries generally had higher costs for employee compensation than service producing industries in 1992. Total compensation costs in goods producing industries were $19.38 per hour worked, while in service producing industries total compensation costs were $14.99 per hour worked (table 3).

Variation in total compensation costs was low among the different industry groups in goods producing industries, ranging from $17.10 in nondurable goods manufacturing to $20.77 in durable goods manufacturing. There was also generally little variation among the components of total compensation, with the exception of legally required benefits. Employers devoted 9 percent of total compensation costs to legally required benefits in all goods producing industries, except construction industries, where legally required benefits accounted for 13 percent of total compensation costs.

The service producing industries experienced greater variation in total compensation costs, ranging from $9.07 in retail trade to $22.91 in transportation and public utilities. Retail trade and services had the lowest percentage of total compensation costs devoted to benefits (17 percent). Legally required benefits represented the largest benefit cost for all service producing industries.

[12]William T. Dickens and Lawrence F. Katz, *Interindustry Wage Differences and Industry Characteristics*, Working Paper No. 2014 (Cambridge, MA: National Bureau of Economic Research, 1986).

Table 3

Employer Costs per Hour Worked for Employee Compensation and Costs as a Percentage of Total Compensation, by Industry Category, March 1992[a]

	Total Compensation Costs per Hour Worked		Percentage within Industry Category					
			Wages and Salaries	Total Benefits	Insurance Benefits[b]	Retirement Benefits[c]	Legally Required[d]	Other Benefits[e]
All Industries	$16.14	100.0%	80.9%	19.0%	6.9%	2.9%	9.1%	0.1%
Goods producing	19.38	100.0	78.1	21.9	8.3	3.6	9.8	0.3
construction	18.91	100.0	76.5	23.5	5.8	4.3	13.4	0.0
manufacturing	19.20	100.0	78.5	21.5	8.9	3.4	8.9	0.3
durable goods	20.77	100.0	78.0	22.0	9.4	3.5	8.7	0.4
nondurable goods	17.10	100.0	79.4	20.6	8.0	3.3	9.2	0.1
Service producing	14.99	100.0	82.3	17.7	6.3	2.5	8.9	0.0
transportation and public utilities	22.91	100.0	79.0	21.0	7.9	3.6	9.4	0.1
wholesale trade	17.67	100.0	81.1	18.9	7.3	2.5	9.0	0.1
retail trade	9.07	100.0	83.2	16.8	4.9	1.3	0.5	0.0
finance, insurance, and real estate	19.95	100.0	82.5	17.5	7.4	3.3	6.8	0.1
services[f]	15.59	100.0	83.1	16.9	5.8	2.4	8.7	0.0

Source: Employee Benefit Research Institute tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation, March 1992* (Washington, DC: U.S. Government Printing Office, 1992).
[a]All figures represented here are adjusted to the Bureau of Economic Analysis' definition of wages and salaries and benefits.
[b]Insurance benefits include life, health, and sick and accident insurance.
[c]Retirement benefits include pensions and savings and thrift plans.
[d]Legally required benefits include Social Security, federal unemployment, state unemployment, and workers' compensation.
[e]Other benefits include severance pay and supplemental unemployment benefits.
[f]Service industries include personal services (barber shop), business service (photocopy shop), and health service (hospital).

Table 4
Employer Costs per Hour Worked for Employee Compensation and Costs as a Percentage of Total Compensation, by Occupation Category, March 1992[a]

	Total Compensation Costs per Hour Worked		Percentage within Occupation Category					
			Wages and Salaries	Total Benefits	Insurance Benefits[b]	Retirement Benefits[c]	Legally Required[d]	Other Benefits[e]
All Workers	$16.14	100.0%	80.9%	19.0%	6.9%	2.9%	9.1%	0.1%
White collar workers	18.95	100.0	82.8	17.2	6.5	2.8	7.8	0.1
professional specialty and technical	25.20	100.0	83.3	16.7	6.0	2.9	7.7	0.1
executive, administrative, and managerial	29.42	100.0	84.2	15.8	5.4	3.2	7.1	0.1
sales workers	13.26	100.0	83.9	16.1	5.4	2.0	8.6	0.0
administrative support, including clerical	13.69	100.0	80.4	19.6	8.8	2.8	8.0	0.0
Blue collar workers	15.88	100.0	77.1	22.9	8.1	3.3	11.1	0.3
precision production, craft, & repair	20.30	100.0	77.8	22.2	7.5	3.6	10.9	0.2
machine operators, assemblers, and inspectors	14.98	100.0	76.5	23.5	9.7	3.1	10.2	0.5
transport & material moving	16.15	100.0	76.2	23.8	7.6	3.5	12.6	0.1
handlers, cleaners, helpers, & laborers	11.41	100.0	77.4	22.6	7.6	2.9	11.9	0.0
Service workers[f]	8.43	100.0	81.7	18.3	5.3	1.7	11.2	0.0

Source: EBRI tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation, March 1992* (Washington, DC: U.S. Government Printing Office,1992).
[a]All figures represented here are adjusted to the Bureau of Economic Analysis' definition of wages and salaries and benefits.
[b]Insurance benefits include life, health, and sick and accident insurance.
[c]Retirement benefits include pensions and savings and thrift plans.
[d]Legally required benefits include Social Security, federal unemployment, state unemployment, and workers' compensation.
[e]Other benefits include severance pay and supplemental unemployment benefits.
[f]The service workers category is predominantely composed of individuals who provide unskilled labor to a service producing establishment.

Occupation

Employer costs for total compensation were higher for white collar workers ($18.95 per hour worked) than for blue collar workers ($15.88 per hour worked) (table 4). However, blue collar workers generally received a greater percentage of total compensation as benefits. Benefits accounted for 23 percent of an employer's costs for a blue collar worker's total compensation, compared with 17 percent for white collar workers. Legally required benefit costs were the largest component of total compensation costs: 11 percent for blue collar workers and 8 percent for white collar workers.

There was a greater disparity among the subcategories of white collar workers than among blue collar workers. Compensation costs among white collar workers ranged from $29.42 for executive, administrative, and managerial workers to $13.26 for sales workers. Among blue collar occupations, total compensation costs ranged from $20.30 for precision production, craft, and repair workers to $11.41 for handlers, cleaners, helpers, and laborers.

Education and unionization are among the factors that influence cost differences by occupation group. Occupations that have a high percentage of individuals with college level education or specialized skills have high total compensation costs. In 1989, 61 percent of individuals in executive, administrative, and managerial occupations—which have the highest total compensation costs—had completed four years or more of college.[13] Similarly, occupations with a high percentage of unionized workers devote a larger percentage of total compensation costs to benefits. Nearly 30 percent of precision production, craft, and repair workers—occupations with a high percentage of total compensation costs as benefits—were union members.[14]

Establishment Size

Establishment size has significant effects on compensation cost levels. Large establishments generally have high compensation costs. Employer costs for employee compensation in establishments with 1 to 99 employees were

[13]U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States: 1991* (Washington, DC: U.S. Government Printing Office, 1991).
[14]Ibid.

Table 5
Employer Costs per Hour Worked for Employee Compensation and Costs as a Percentage of Total Compensation, by Establishment Size, March 1992[a]

	Private Industry Costs per Hour Worked	Percentage within Firm Size Categories			
		1–99 Employees	100 or More Employees	100–499 Employees	500 and More Employees
Total Compensation	$16.14	$13.95	$18.06	$15.03	$21.23
Percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Wages	80.9	81.9	80.2	80.8	79.8
Total Benefits	19.0	18.1	19.8	19.2	20.2
Insurance[b]	6.3	5.4	6.9	6.5	7.2
Retirement[c]	2.9	2.2	3.3	2.7	3.8
Legally Required[d]	9.1	9.8	8.6	9.3	8.1
Other Benefits[e]	0.7	0.5	0.8	0.5	1.0

Source: Employee Benefit Research Institute tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation, March 1992* (Washington, DC: U.S. Government Printing Office, 1992).
[a]All figures represented here are adjusted to the Bureau of Economic Analysis' definition of wages and salaries and benefits.
[b]Insurance benefits include life, health, and sick and accident insurance.
[c]Retirement benefits include pensions and savings and thrift plans.
[d]Legally required benefits include Social Security, federal unemployment, state unemployment, and workers' compensation.
[e]Other benefits include severance pay and supplemental unemployment benefits.

$13.95 per hour worked, while the costs in establishments with 500 or more employees were $21.23 per hour worked. Large establishments also devote a larger percentage of total compensation costs to benefits. In 1992, establishments with 500 or more employees spent 20 percent of total compensation costs on benefits, and establishments with 1 to 99 employees spent 18 percent of total compensation costs on benefits (table 5).

Legally required benefits represented the largest benefit cost for all three establishment sizes. However, as a percentage of total benefits, the costs of these benefits were larger for small establishments than for large ones. Among establishments with 1 to 99 employees, these benefits represented 54.4 percent of total benefit costs, while in establishments with 500 or more employees they represented 40.4 percent of total benefit costs.

Several interacting factors account for the difference in total compensation costs by establishment size. Large establishments have greater resources and can afford higher labor costs. These greater resources also enable large establishments to hire a more highly skilled work force. Large establishments also have a lower employee turnover rate than small establishments, at least in part because they offer more opportunities for advancement within the establishment.[15]

[15]Charles Brown and James Medoff, "The Employer Size-Wage Effect," *Journal of Political Economy* (October 1989): 1027–1059.

Benefit Cost Trends

Since 1987, the first year of the BLS survey, employer costs for total compensation have risen at an average annual rate of 3.8 percent (from $13.42 in 1987 to $16.14 in 1992). The benefit component of total compensation accounted for the major part of the growth, increasing at an average annual rate of 5.5 percent, compared with 3.3 percent average annual growth rate for wages and salaries. The growth in benefit costs has been fueled primarily by insurance costs, reflecting the rising costs of health care to businesses. Insurance benefit costs increased at an average annual rate of 9.2 percent from $0.72 in 1987 to $1.12 in 1992 (chart 1). During the same period, legally required benefit costs increased at a slower rate of 5.4 percent, while retirement benefit costs showed a negative growth rate of -0.8 percent.

—Ken McDonnell, EBRI

◆ Benefits Continue to Play Key Role in Americans' Job Choices—Health Insurance Still Rated Most Important Benefit, According to EBRI/Gallup Survey

Three quarters of Americans (75 percent) consider employee benefits such as health insurance, pensions, vacation, sick leave, child care, and life insurance "very important" when deciding whether to accept or reject a job offer, according to a recent survey by EBRI and The Gallup Organization, Inc. This is an increase from previous years in which similar EBRI/Gallup surveys found that 70 percent of Americans in 1991 and 57 percent in 1990 considered these employee benefits "very important" in making employment decisions.[16]

The 1992 survey also found Americans continue to regard health insurance as the most important employee benefit (68 percent in 1992, 65 percent in 1991, and 63 percent in 1990). In fact, for respondents who indicated they have health benefits (68 percent), the average amount of additional annual pay they said they would need in order to give up that benefit was $4,570.

Survey results also indicate that Americans are becoming more aware of the cost of employer-provided health insurance. In 1992, 49 percent of Americans receiving health insurance through employers said they do not know how much their employers contribute toward the coverage, compared with 57 percent in 1991 and 71 percent in 1990.

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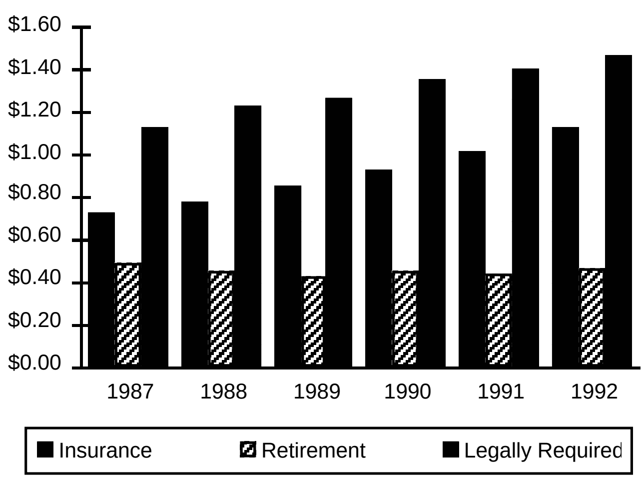
[16]The response selections in 1990, were very important, important, somewhat important, and not important while in 1991 and 1992 they were very important, somewhat important, not too important, and not at all important.

Chart 1
Benefit Costs per Hour Worked, 1987–1992



Source: Employee Benefit Research Institute tabulations of data from U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation, March 1992* (Washington, DC: U.S. Government Printing Office, 1992).

Meanwhile, a majority of Americans continue to say they would not accept a job that did not provide health insurance—56 percent in 1992 and 57 percent in 1991.

While the importance of health insurance as an employee benefit has remained strong, pensions are also an important benefit—34 percent of Americans in 1992 said pension coverage is the second most important benefit, compared with 35 percent in 1991 and 17 percent in 1990. In 1992, 40 percent of Americans said they would not accept a job that did not offer a pension plan. And, for those respondents who reported they have pension benefits (51 percent), the average amount of additional annual pay they said they would need in order to give up that benefit was $5,412.

Most respondents ranked child care as the least important benefit (41 percent), followed by parental leave (17 percent), annual leave (11 percent), savings plan (11 percent), and life insurance (7 percent).

One out of five Americans (19 percent) said they had changed, quit, or accepted a job based on the benefits provided. Respondents said if they had a choice between two identical jobs—only one of which offered benefits—they would require an average amount of $7,117 to accept the job without benefits.

The 1992 survey on the value of benefits was conducted in September of this year and is the fortieth in a series of nationwide public opinion surveys EBRI is undertaking on public attitudes toward economic security issues. The surveys are conducted monthly for EBRI by The Gallup Organization, Inc., which questions 1,000 Americans by telephone. The maximum expected error range at the 95 percent confidence level is ±3.1 percent.

Copies of the survey report, *Public Attitudes on the Value of Benefits, 1992* (G-40) and the 1991 (G-23) and 1990 (G-12) surveys may be ordered from Kim Thorpe (202) 775-6315 for the following prices: summary—$75 each; full report—$275 each; EBRI member prices: summary—$25 each; full report—$75 each.

—*Carolyn Piucci, EBRI*

◆ Washington Update

Congress has already begun to prepare legislative agendas for the next session and for the new administration.

President-elect Bill Clinton has taken a number of steps to prepare for the White House and for the policy proposals he will introduce in the early days of his administration. He announced the names of his transition team advisors Nov. 12 and met with the congressional leadership Nov. 15 and 16 for initial discussions.

Health Care—Oregon resubmitted a revised version of its health plan to the Department of Health and Human Services (HHS) Nov. 13 for federal approval (*Notes*, 8/92, p. 8). The plan was revised to eliminate the elements that were considered discriminatory and thus in violation of the Americans with Disabilities Act (ADA). The plan still contains elements of rationing but alters the "quality of life" ranking system, moving treatments for such conditions as advanced cases of AIDS, low birthweight babies, and alcohol-related liver disease higher up in the rankings. President-elect Clinton has stated publicly that he would approve the plan if it is presented to him.

Self-Insured Plans—The U.S. Supreme Court announced Nov. 9 that it would not review the Fifth Circuit Court of Appeals ruling on the *McGann v. H&H Music Co.* case. The appellate ruling found that employers that self-insure may change or sharply reduce health care coverage for certain expensive illnesses such as AIDS (*Notes*, 11/92, p. 8).

Pension Regulation—IRS released Oct. 29 guidance on certain employee contributions that are refunded to plan participants due to section 415 limits (Revenue Procedure 92-93). The guidance states that section 415 refunds are: exempt from the 10 percent tax on early distributions; taxable in the year that the refund is made; and subject to the retirement withholding rules. However, these refunds are not considered eligible rollover distributions and therefore are not subject to the 20 percent withholding rule. The guidance also explains that section 415 refunds should be reported on a separate Form 1099-R. The revenue procedure is effective Jan. 1, 1993.

—Debra Oberman, EBRI

◆ New Publications

[*Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 783-3238; to order congressional publications, call (202) 275-3030. To order U.S. General Accounting Offfice (GAO) publications, call (202) 275-6241.*]

Bast, Joseph L., Richard C. Rue, and Stuart A. Westburg, Jr. **Why We Spend Too Much on Health Care.** $14. Heartland Institute, 634 South Wabash Ave., Second floor, Chicago, IL 60605, (312) 427-3060.

Beam, Burton T., Jr., and John L. McFadden. **Employee Benefits.** Third edition. $48. Dearborn Financial Publishing, Inc., 520 North Dearborn St., Chicago, IL 60610-4354, (312) 836-4400.

Buck Consultants, Inc. **The Health of America's Pension Plans.** $75. Carolee Martin, Manager of Marketing, Buck Consultants, Inc., 500 Plaza Drive, Secaucus, NJ 07096, (201) 902-2555.

Bureau of National Affairs. **Shift Work: Family Impact and Employer Responses.** $40. BNA Plus, Customer Relations Center, 9435 Key West Ave., Rockville, MD 20850, (800) 372-1033.

Business Publishers, Inc. **Directory of Aging Resources.** First edition. $84.95. Business Publishers, Inc., 951 Pershing Drive, Silver Spring, MD 20910-4464, (301) 587-6300.

Casparie, A. F., H. E. G. M. Hermans, and J. H. P. Paelnik, eds. **Health Care in Europe after 1992.** $67.95. Ashgate Publishing Company, Old Post Road, Brookfield, VT 05036, (802) 276-3162.

Center on Budget and Policy Priorities. **Where Have All the Dollars Gone?: A State-by-State Analysis of Income Disparities Over the 1980s**. $10. Center on Budget and Policy Priorities, 777 N. Capitol St., NE, Suite 705, Washington, DC 20002, (202) 408-1080.

Financial Accounting Standards Board. **Statement of Accounting Standard 110: Reporting by Defined Benefit Pension Plans of Investment Contracts—An Amendment of FASB Statement No. 35.** $10. Financial Accounting Standards Board, Order Dept., 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116, (203) 847-0700.

Hewitt Associates. (1) **College and University Experience in Managed Care: 1992.** $75. (2) **Dual-Career Ladders: 1992.** $75. Hewitt Associates, 100 Half Day Road, Lincolnshire, IL 60069, (708) 295-5000.

International Foundation of Employee Benefit Plans. **COBRA Survey of Multiemployer Plans.** $19 members; $24 nonmembers. Research Dept., International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, WI 53008, (414) 786-6700.

Ms. Foundation for Women/Center for Policy Alterna-

tives. **Women's Voices: A Joint Project.** $14. Ms. Foundation for Women, 1875 Connecticut Ave., NW, Washington, DC 20009, (202) 387-6030.

National Governors' Association. **The Fiscal Survey of States.** $25. National Governors' Association, 444 N. Capitol St., NW, Suite 267, Washington, DC 20001, (202) 624-5300.

Reagan, Michael D. **Curing the Crisis: Options for America's Health Care.** $15.95. Westview Press, Inc., 5500 Central Ave., Boulder, CO 80301, (303) 444-3541.

Rosner, Jeremy D. **A Progressive Perspective on Health Care Reform.** $3.50. Progressive Foundation, 316 Pennsylvania Ave., SE, Suite 500, Washington, DC 20003, (202) 546-4482.

Rupp, Richard V. **Rupp's Insurance & Risk Management Glossary**. $32.95. NILS Publishing Company, 21625 Prairie St., Chatsworth, CA 91311, (818) 998-8830.

Schulz, James H. **The Economics of Aging.** Fifth edition. $18.95. Greenwood Publishing Group, Inc., 88 Post Road, Westport, CT 06881-9990, (203) 226-3571.

U.S. Congress. House Committee on Education and Labor. (1) **Oversight Hearing on National Health Care Reform.** (2) **Oversight Hearing on Small Business Health Insurance Problems.** Order from GPO.

U.S. Congress. House Committee on Energy and Commerce. (1) **Health Care Fraud and Waste.** (2) **Medicaid Program Investigation.** Order from GPO.

U.S. Congress. House Committee on Ways and Means. (1) **Outreach Efforts in the Supplemental Security Income and Qualified Medicare Beneficiary Programs.** (2) **Private Health Insurance Reform Legislation.** Order from GPO.

U.S. Congress. House Select Committee on Aging. (1) **Geriatricians and the Senior Boom: Precarious Present, Uncertain Future.** (2) **How Will Today's Women Fare in Yesterday's Traditional Retirement System?** Order from GPO.

U.S. Congress. Senate Committee on Banking, Housing, and Urban Affairs. (1) **The Small Business Incentive Act of 1992**. (2) **Medicaid Managed Care.** Order from GPO.

U.S. Congress. Senate Committee on Labor and Human Resources. **Meeting the Challenge of HIV Care: Implementing the Ryan White AIDS Care Act.** Order from GPO.

U.S. Congress. Senate Select Committee on Indian Affairs. **Reauthorization of the Native Hawaiian Health Care Improvement Act.** Order from GPO.

U.S. Congress. Senate Special Committee on Aging. (1) **The Effects of Escalating Drug Costs on the Elderly**. (2) **Medicare Balance Billing Limits: Has the Promise Been Fulfilled?** Order from GPO.

U.S. General Accounting Office. (1) **Canadian Health Insurance: Estimating Costs and Savings for the United States.** (2) **D.C. Government: District Medicaid Payments to Hospitals.** (3) **Dislocated Workers: Comparison of Assistance Programs.** (4) **Employee Benefits: Financing Health Benefits of Retired Coal Miners.** (5) **Medicare: Reimbursement Policies Can Influence the Setting and Cost of Chemotherapy.** (6) **Medicare: One Scheme Illustrates Vulnerabilities to Fraud.** (7) **Premium Accounting System: Pension Benefit Guaranty Corporation System Must Be an Ongoing Priority.** (8) **Prescription Drugs: Changes in Prices for Selected Drugs.** (9) **Poverty Trends: 1980–88: Changes in Family Composition and Income Sources among the Poor.** (10) **Prescription Drugs: Companies Typically Charge More in the United States than in Canada.** Order from GAO.

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