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EXECUTIVE SUMMARY

Employee Tenure, 2010

TENURE INCREASED IN 2010: The median (mid-point) tenure for all wage and salary workers age 25 or older was slightly higher in 2010, at 5.2 years, compared with 5.0 years in 1983. However, the median tenure for *male* wage and salary workers declined from 5.9 years in 1983 to 5.3 years in 2010. In contrast, the median tenure for *female* wage and salary workers increased from 4.2 years in 1983 to 5.1 years in 2010. Consequently, the increase in the median tenure of female workers more than offsets the decline for male workers, leaving the overall level slightly higher.

PRIVATE- VS. PUBLIC-SECTOR TENURE GAP SHRINKING: The gap between private- and public-sector workers' tenure is quite striking, with far longer tenure found in public-sector jobs. However, the percentage of long-term public-sector workers dropped in 2006 and in 2010, while the percentage of long-term private-sector workers are growing.

NO GOLD WATCH: The tenure results presented in this report indicate that, historically, most workers have repeatedly changed jobs during their working careers, and all evidence suggests that they will continue to do so in the future. This has major implications for pensions (which do not reward short-tenure workers), lump-sum distributions from 401(k) plans (which can put workers' retirement savings at risk), and public policy: Public-sector employers are facing the retirement of a significant number of their most experienced workers at a time when social programs are about to face tremendous increases in enrollment.

Who Might Respond to Financial Incentives That Use Lower Cost Sharing to Change Behavior? Findings from the 2010 Health Confidence Survey

INCENTIVES: Understanding how individuals respond to financial incentives in their health coverage is crucial to the design of plans that are effective in steering them to high-quality, cost-effective providers. This article uses data from the EBRI/MGA 2010 Health Confidence Survey to examine whether health care consumers would be interested in, or might find useful, financial incentives that are aimed at changing an individual's health behavior.

IMPORTANCE OF DEMOGRAPHICS: The impact of incentives varies with selected demographics: There was no significant difference between men and women, but younger individuals were more likely than older ones to report that incentives to choose the most effective treatment would be extremely or very useful. There is also evidence that minorities and lower-income individuals are more likely to find lower cost-sharing incentives useful when it comes to using more effective treatments. No difference was found by education level. Individuals who are not satisfied with the quality of care they have received are more likely to report that lower cost sharing would be a useful incentive to choose a more effective treatment.

Employee Tenure, 2010

By Craig Copeland, Employee Benefit Research Institute

Introduction

Past generations of American workers are believed to be represented by a typical worker holding a career job—staying with the same employer for most of his or her working years—then retiring with the proverbial “gold watch.” In contrast, current American workers are believed to change jobs more frequently, have less employment security, and are left without the gold watch.

However, the data on employee tenure—the amount of time an individual has been with his or her current employer—show that career jobs never existed for most workers and have continued not to exist for most workers. Although data on tenure do not measure workers’ *security* (generally defined as the workers’ perception of being able to continue in their current job), they do show *stability* (the actual length of time workers have been with their current employer). Consequently, tenure data show the results, not the perception, of the ability to stay in a current job.

This article updates previous Employee Benefit Research Institute (EBRI) publications that have examined employee tenure data of American workers.¹ The latest data on employee tenure from the January 2010 Supplement to the U.S. Census Bureau’s Current Population Survey (CPS) are examined and compared with the trends from previous CPS publications on employee tenure.²

The data for 2010 show that the overall median tenure of workers—the midpoint of wage and salary workers’ length of employment in their current job—was slightly higher in 2010, at 5.2 years, compared with 5.0 years in 1983. Even among older male workers (ages 55–64), who experienced the largest change in their median tenure, the median tenure fell from a level that would not be considered a career—14.7 years in 1963—to a roughly comparable but clearly lower level of 10.4 years in 2010.³

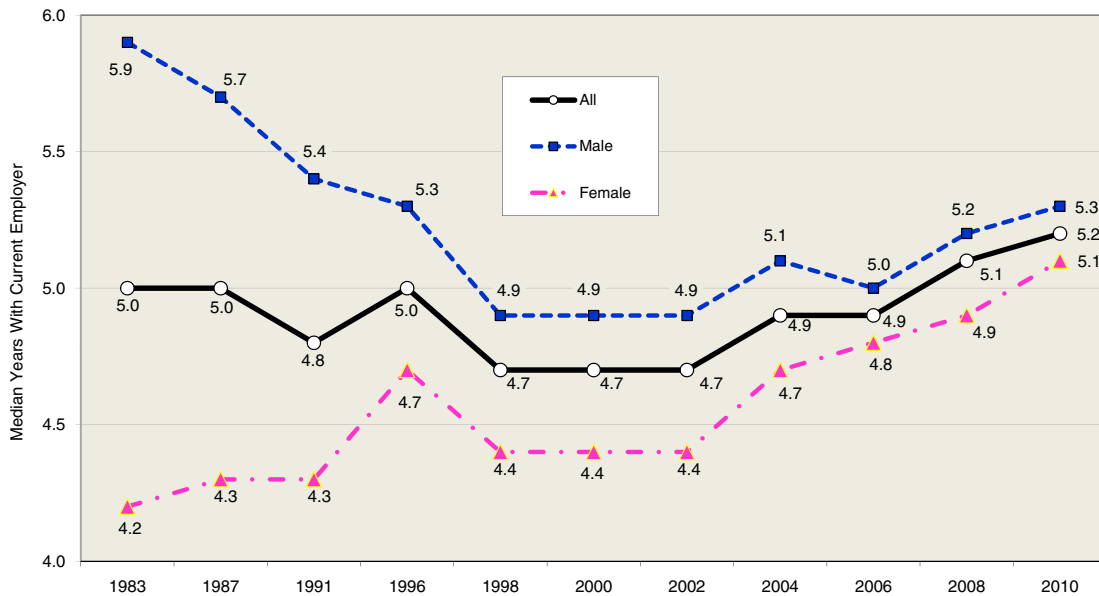
Overall Tenure

The median tenure for all wage and salary workers age 25 or older was slightly higher in 2010, at 5.2 years, compared with 5.0 years in 1983 (Figure 1). However, the median tenure for *male* wage and salary workers declined from 5.9 years in 1983 to 5.3 years in 2010. In contrast, the median tenure for *female* wage and salary workers increased from 4.2 years in 1983 to 5.1 years in 2010. Consequently, the increase in the median tenure of female workers more than offsets the decline in the median tenure of male workers, leaving the overall level slightly higher.

Age and Gender—A closer examination of age and gender median tenures using a longer time series shows that the median tenure for the oldest working males (ages 55–64) declined steadily from a peak of 15.3 years in 1983 to 9.5 years in 2006 before increasing and reaching 10.4 years in 2010 (Figure 2).⁴ However, since a male worker of this age with the median level of tenure would not have started this job until he was in his 40s, it would be difficult to consider that a career job. As the age category decreases, the median tenure line becomes flatter, showing a smaller change in the tenure level across time. The 25–34-year-old male tenure line was virtually flat, at three years. For females, the median tenure was flat to increasing across all age groups (Figure 3). The largest increase was among females ages 55–64, whose median tenure increased from 7.8 years in 1963 to 9.7 years in 2010.

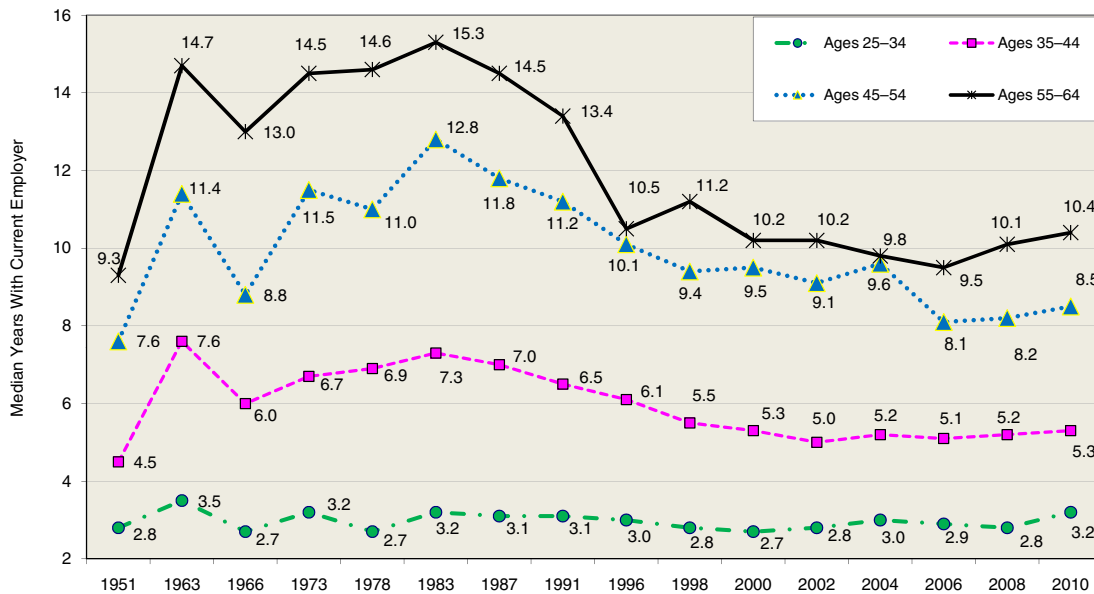
Public vs. Private Sector—Among *all* wage and salary workers age 20 or older, the median tenure level held steady at or just above 4.0 years from 1983 to 2008, with somewhat of a jump to 4.5 years in 2010 (Figure 4). *Private-sector* workers’ median tenure also held relatively steady from 1983 to 2002, at around 3.5 years. Subsequently, the median trend level has trended upward, reaching 4.0 years in 2010. However, the median tenure for *public-sector* workers increased from 6.0 years in 1983 to 7.5 years in 1998 before declining to 7.0 years in 2004. It remained at 7.0 years in 2006 and 2008, before increasing in 2010 to 7.1 years. From 1983 to 2000, median job

Figure 1
**Median Years of Tenure For Wage and Salary Workers
 Ages 25 or Older by Gender, 1983–2010**



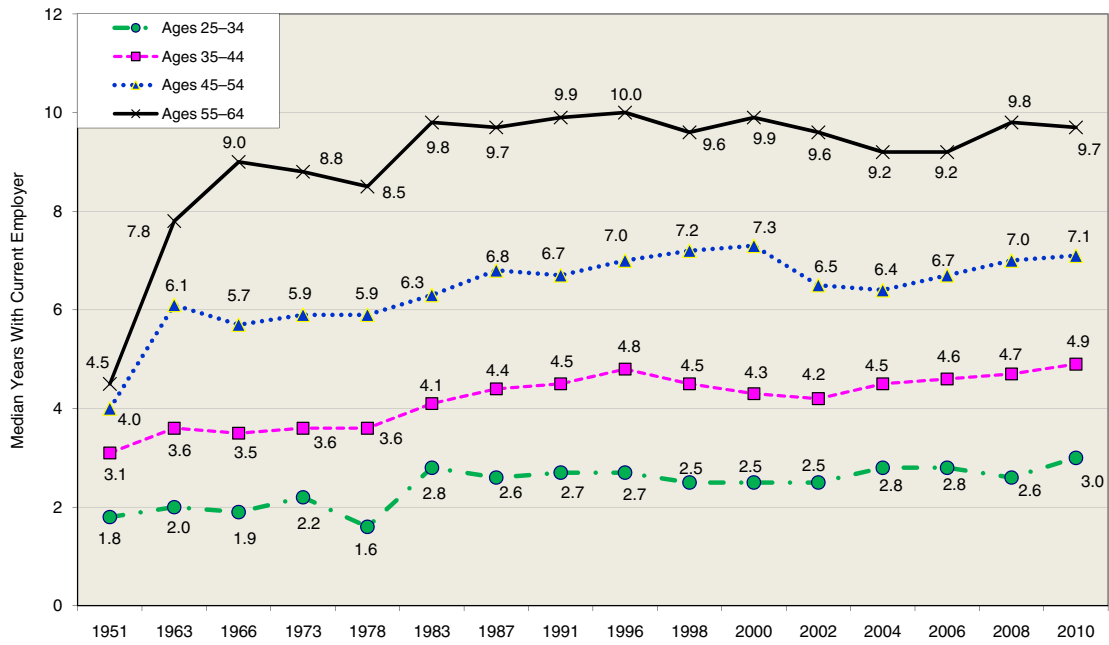
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/tenure.t01.htm and ftp.bls.gov/pub/news.release/History/tenure.09192002.news (viewed January 30, 2007), and www.bls.gov/news.release/tenure.nr0.htm

Figure 2
**Male Prime-Age (25–64) Workers Median Tenure Trends,
 by Age, 1951–2010**



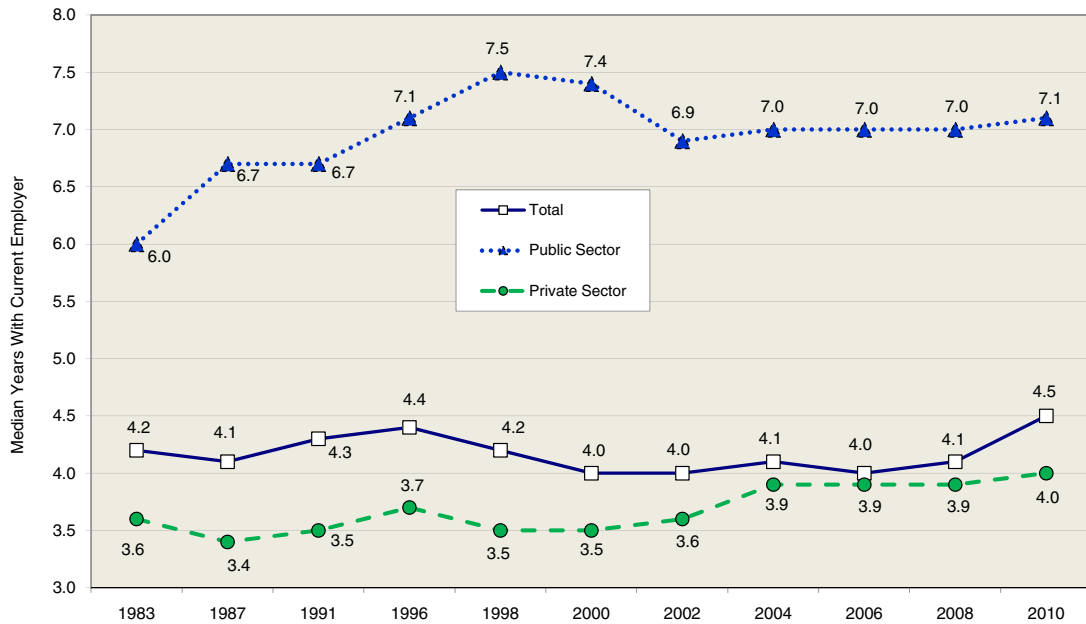
Source: Data (for 1951, 1963, 1966, 1973, and 1978) from the *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979) and from press releases (for 1983, 1987, 1991, 1996, 1998, 2000, 2002, 2004, 2006, 2008, and 2010) from the U.S. Department of Labor, Bureau of Labor Statistics.

Figure 3
Female Prime-Age (25–64) Workers Median Tenure Trends, by Age, 1951–2010



Source: Data (for 1951, 1963, 1966, 1973, and 1978) from the *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979) and from press releases (for 1983, 1987, 1991, 1996, 1998, 2000, 2002, 2004, 2006, 2008, and 2010) from the U.S. Department of Labor, Bureau of Labor Statistics.

Figure 4
Median Tenure Levels For Wage and Salary Workers (Ages 20 or Older), by Sector, 1983–2010



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/tenure.t01.htm and ftp.bls.gov/pub/news.release/History/tenure.09192002.news (viewed January 30, 2007), and Employee Benefit Research Institute estimates from the January 2004, 2006, 2008, and 2010 Current Population Surveys.

tenure in the public sector increased significantly relative to the private sector, and currently is around 80 percent higher than that of the private sector, where it has been since 2002.

For *male private-sector* wage and salary workers age 20 or older, the median tenure trended slightly downward, from 4.2 years in 1983 to 3.8 years in 2002 before increasing to 4.0 years in 2004 and to 4.5 years in 2010 (Figure 5). In contrast, *female private-sector* workers had an upward trend in their median tenure, from 3.1 years in 1983 to 4.0 years in 2010.

For *male public-sector* workers, the median tenure had a flat to upward trend from 7.9 years in 1983 to 8.5 years in 2004, before falling back to 8.0 years in 2006–2010. *Female public-sector* workers' median tenure level had an overall upward trend during the 1983–2002 period, reaching a peak of 6.9 years in 1998 before falling to 6.0 years in 2004 and subsequently increasing again to 6.5 years in 2006 and to 7.0 years in 2010.

Tenure Distribution

The distribution of all wage and salary workers age 20 or older across various levels of tenure was relatively stable from 1983 through 2010 (Figure 6). The changes that did appear over the period were increases in the percentage of workers with higher levels of tenure, particularly in 2010. The percentage of workers with 20 or more years of tenure increased from 8.9 percent in 1983 to 10.7 percent in 2008 and to 10.9 percent in 2010. A corresponding decrease in the percentage of workers with one year or less of tenure also resulted, declining from 25.7 percent in 1983 to 20.8 percent in 2008 and to 17.4 percent in 2010. The tenure-level categories in between varied within fairly small ranges but generally toward longer tenure levels. In 2010, the percentage of workers having at least five years of tenure surpassed 50 percent (51 percent), the highest percentage over the 1983–2010 period by nearly 2 percentage points.

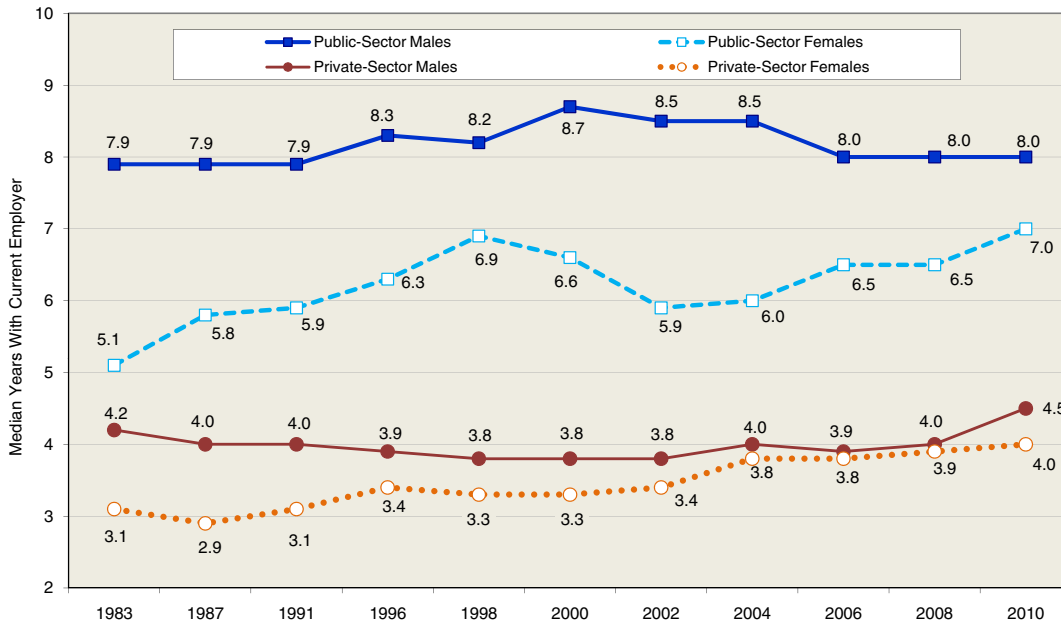
The constancy of the tenure distribution over time is less pronounced when analyzed by the workers' gender. While the percentage of male workers with the longest tenure (20 or more years) in 2008 was similar to its 1983 level, there was an upward trend in the percentage of male workers with less than five years of tenure from 1983 to 2002, but the percentage with less than five years of tenure started to decrease in 2004, with a 2.6 percentage point drop in 2010 (Figure 7). In 1983, the percentage of male workers with less than five years of tenure was 49.4 percent, and by 1998 this percentage had increased to 52.5 percent before falling back to 47.5 percent by 2010.

Female workers' tenure distribution had a clearly different pattern, as the percentage with 20 or more years of tenure increased substantially, from 4.9 percent in 1983 to 9.9 percent in 2010 (Figure 8). Furthermore, the percentage of female workers who had 10 or more years of tenure increased by nearly 8 percentage points from 1983 to 2010. Consequently, the percentage of female workers with less than five years of tenure decreased, particularly among those with one year or less of tenure.

Older male and female workers (ages 45–64) had different trends in the percentage with 10 or more years of tenure over the 1983–2010 period. Among the *male* age groups examined, a decrease of just under 11 percentage points was the minimum change in the share of workers with 10 or more years of tenure. Males ages 45–49 experienced the largest decline: from 57.8 percent in 1983 to 43.7 percent in 2010 (Figure 9). However, in 2010, each age category within the age range of 45–64 years (except for those ages 55–59) had an increase in the percentage with 10 or more years of tenure, with those ages 60–64 jumping from 52.4 percent in 2008 to 56.8 percent in 2010.

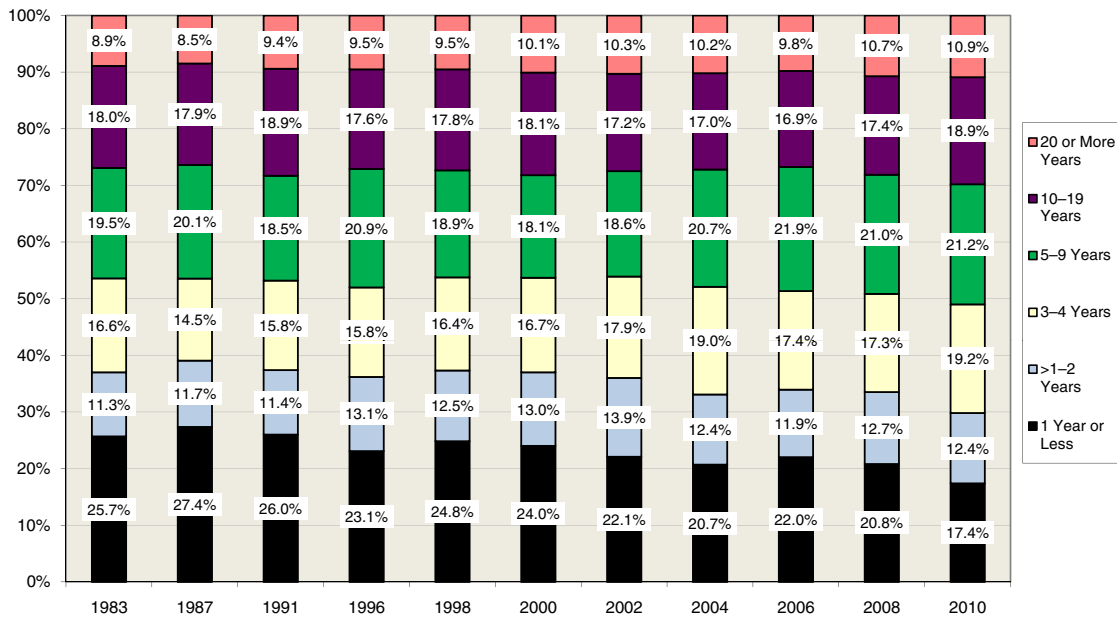
In contrast, the percentage of *female* workers of this age who had 10 or more years of tenure increased for each age group, except for those ages 60–64, who had only a slight decline during the 1983–2010 period (Figure 10). The share of female workers ages 45–49 with 10 or more years of tenure went up from 33.0 percent in 1983 to 38.0 percent in 2010, a 5 percentage point increase and the largest change. This trend peaked at 41.4 percent in 2000, before declining to just below 37 percent in 2008. On the other hand, among female workers ages 60–64, the percentage with 10 or more years of tenure declined from 52.6 percent to 52.2 percent. In 2010, the percentage of workers with 10 or more years of tenure in each age category increased (except for those ages 60–64).

Figure 5
Median Tenure Levels For Wage and Salary Workers
(Ages 20 or Older), by Sector and Gender, 1983–2010



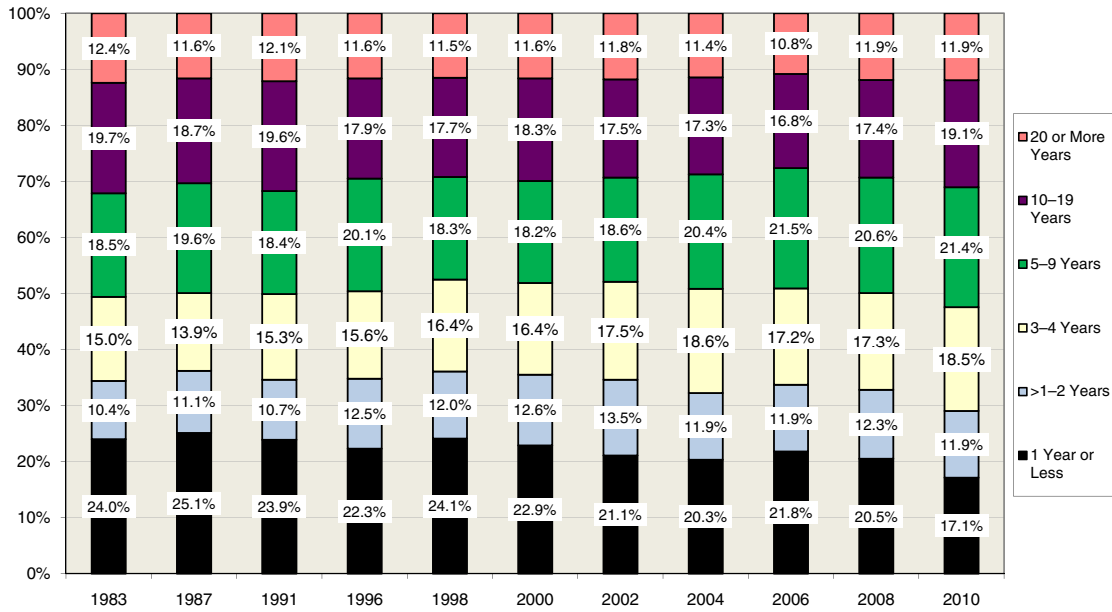
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/tenure.t01.htm and ftp.bls.gov/pub/news.release/History/tenure.09192002.news (viewed January 30, 2007), and Employee Benefit Research Institute estimates from the January 2004, 2006, 2008, and 2010 Current Population Surveys.

Figure 6
Employee Tenure Distribution: All Wage and Salary Workers
(Ages 20 or Older), 1983–2010



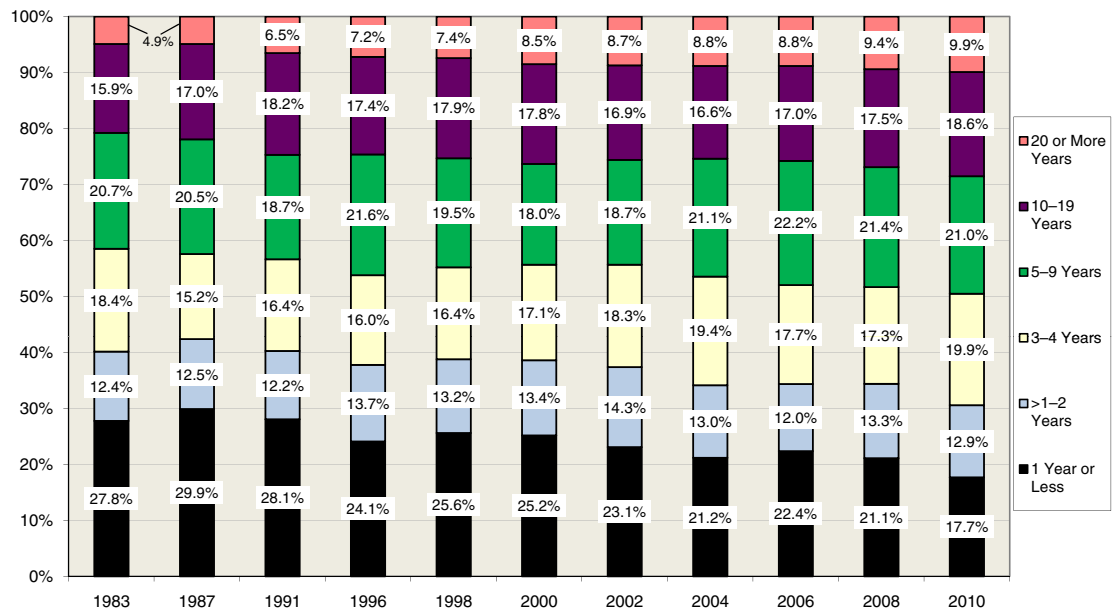
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at ftp.bls.gov/pub/news.release/History/tenure.09192002.news, ftp.bls.gov/pub/news.release/History/tenure.09212004.news, www.bls.gov/news.release/tenure.t03.htm and www.bls.gov/news.release/tenure.nr0.htm (viewed September 14, 2010).

Figure 7
Employee Tenure Distribution: Male Wage and Salary Workers
(Ages 20 or Older), 1983–2010



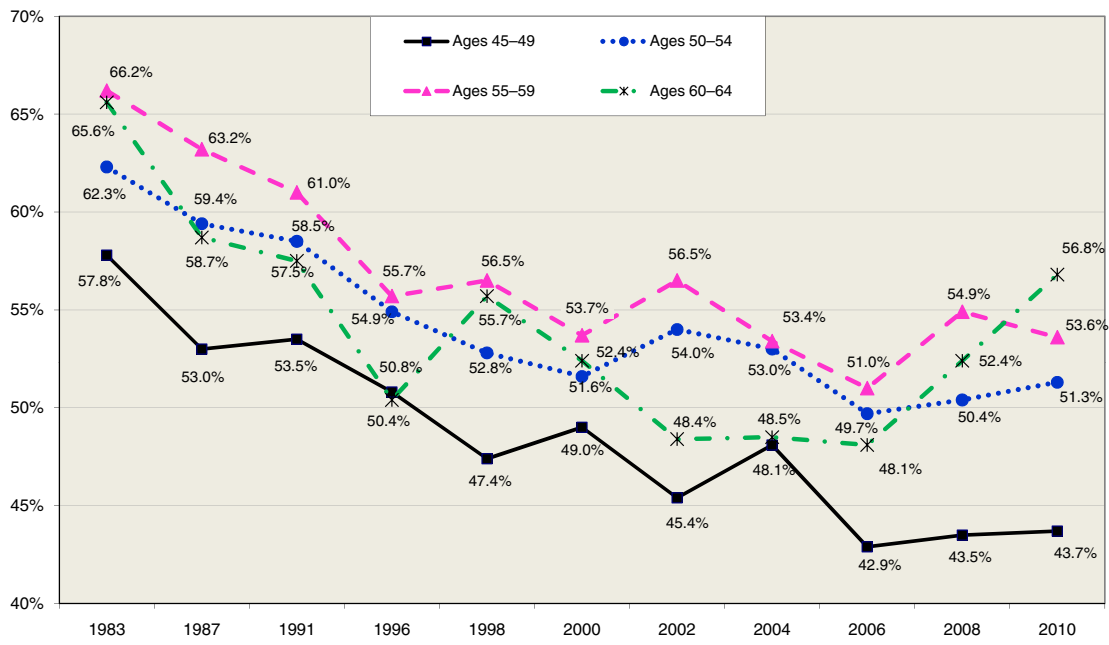
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at <ftp.bls.gov/pub/news.release/History/tenure.09192002.news>, <ftp.bls.gov/pub/news.release/History/tenure.09212004.news>, www.bls.gov/news.release/tenure.t03.htm and www.bls.gov/news.release/tenure.nr0.htm (viewed September 14, 2010).

Figure 8
Employee Tenure Distribution: Female Wage and Salary Workers
(Ages 20 or Older), 1983–2010



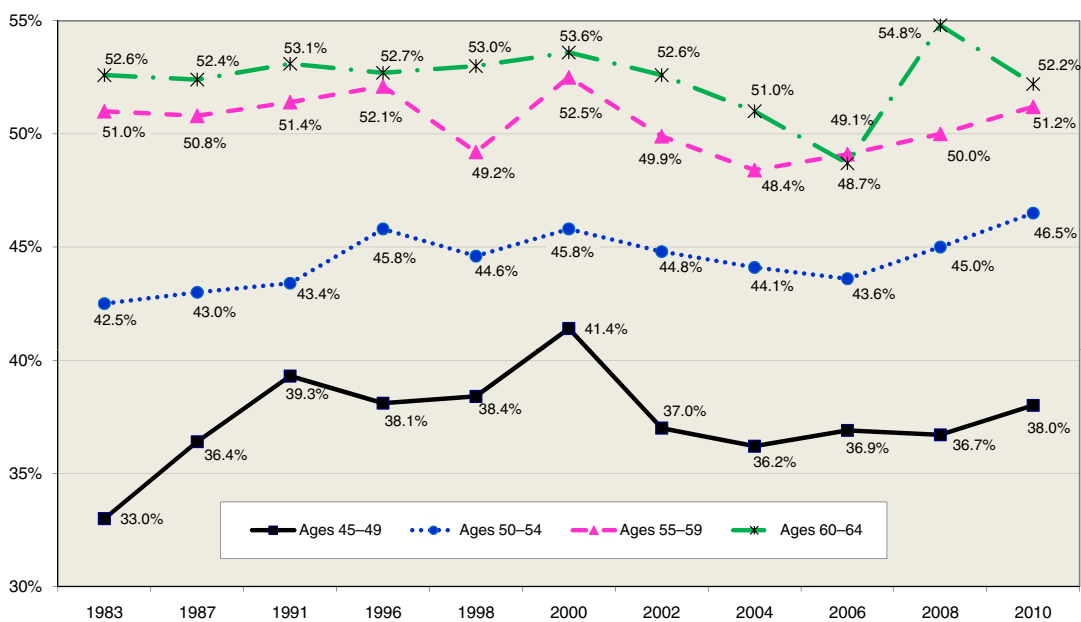
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at <ftp.bls.gov/pub/news.release/History/tenure.09192002.news>, <ftp.bls.gov/pub/news.release/History/tenure.09212004.news>, www.bls.gov/news.release/tenure.t03.htm and www.bls.gov/news.release/tenure.nr0.htm (viewed September 14, 2010).

Figure 9
**Percentage of Male Wage and Salary Workers Ages 45–64
 Who Had 10 or More Years of Tenure, by Age, 1983–2010**



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at <ftp.bls.gov/pub/news.release/History/tenure.09192002.news>, <ftp.bls.gov/pub/news.release/History/tenure.09212004.news>, www.bls.gov/news.release/tenure.t03.htm and www.bls.gov/news.release/tenure.nr0.htm (viewed September 14, 2010).

Figure 10
**Percentage of Female Wage and Salary Workers Ages 45–64
 Who Had 10 or More Years of Tenure, by Age, 1983–2010**



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at <ftp.bls.gov/pub/news.release/History/tenure.09192002.news>, <ftp.bls.gov/pub/news.release/History/tenure.09212004.news>, www.bls.gov/news.release/tenure.t03.htm and www.bls.gov/news.release/tenure.nr0.htm (viewed September 14, 2010).

Among older workers (ages 45–64), the percentage having 25 or more years of tenure declined from 1983 to 2010 (Figure 11). However, among those ages 60–64, the percentage with 25 or more years of tenure increased by over 3 percentage points from 2006 to 2008, after a fairly steep decline from 1983 to 2006. In 2010, the downward trend resumed for this age group with the percentage declining to 19.3 percent from 19.9 percent in 2008. In 1983, 23.3 percent of wage and salary workers ages 60–64 had tenure of 25 or more years, compared with 16.6 percent in 2006. For those ages 55–59, a persistent decline occurred: from 22.7 percent in 1983 to 17.3 percent in 2010. The decline in the percentage of workers ages 45–54 with 25 or more years was much less dramatic: from 12.9 percent in 1983 to 9.7 percent in 2010.

In addition to differences by age and gender, tenure distribution is also significantly different across employment sectors. Among the *longest-tenured private-sector workers* (25 or more years), the percentage of all workers (both male and female) with this tenure remained relatively stable from 1983–2010 (Figure 12). The trend for male private-sector workers with 25 or more years of tenure was downward from 7.7 percent in 1983 to 6.2 percent in 2010, while the female trend was upward, from 2.6 percent in 1983 to 4.2 percent in 2010, leading to the overall percentage remaining stable at approximately 5.0 percent. However, the percentage of private-sector workers with 25 or more years of tenure increased in 2008 and 2010, with the percentage of males rising from 5.4 percent in 2006 to 6.2 percent in 2010.

In contrast, the percentage of *public-sector workers* (again both male and female) with 25 or more years of tenure increased sharply during this period: Among male workers, the percentage with the longest tenure went from 8.1 percent in 1983 to 12.7 percent in 2004 before falling to 11.7 percent in 2006 and 10.2 percent in 2010; the increase was even greater among female workers, with the percentage with 25 or more years of tenure rising from 2.6 percent in 1983 to 9.0 percent in 2010. The substantial decline in the percentage of male public-sector workers with 25 or more years in tenure in 2010 resulted in an overall decline in this percentage for public-sector workers. Consequently, the significant difference between the public and private sectors in the percentage of the longest-tenured workers contracted—the gap was 117 percent higher in 2004, and declined to 83 percent higher in 2010.

This result has significant implications for public-sector employers, as a considerable portion of their work force has reached retirement age and retired or will be approaching retirement in the near future. Thus, at a time of growth in the nation's elderly population (which is more likely to need social services than the nonelderly), the most experienced workers within the state and federal agencies providing these services will be retired or retiring. In contrast, private-sector employers, in general, do not appear to be facing this issue, as they have employed a consistent percentage of long-term workers from 1983–2006, but this trend has changed with the uptick in this percentage of long-tenured workers in 2008 and 2010.

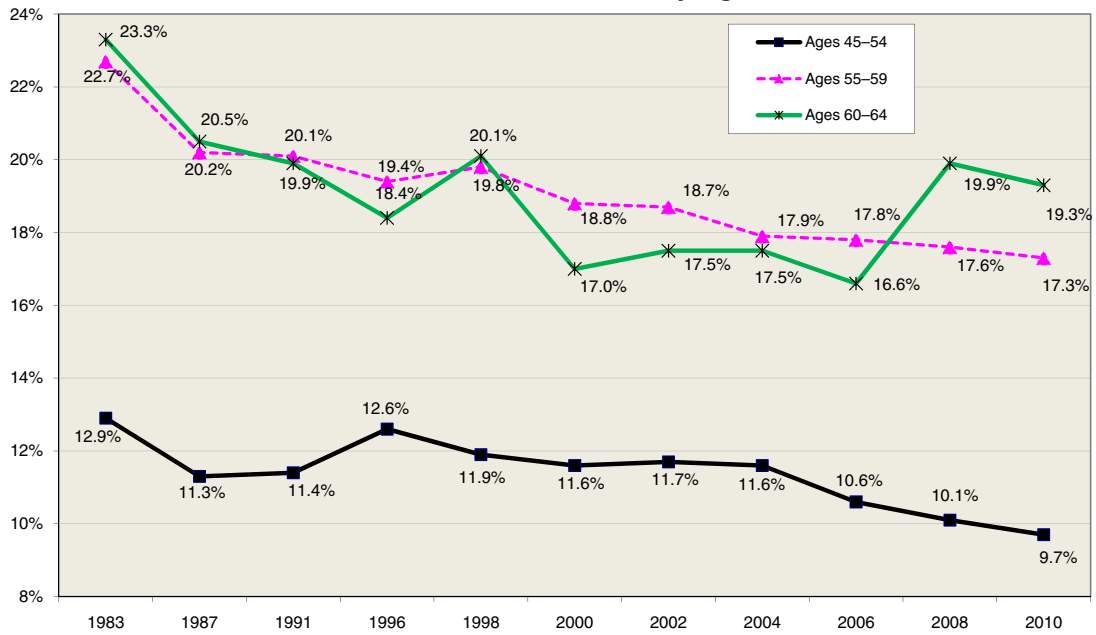
Discussion

Over the past 25 plus years, the median tenure of all wage and salary workers age 20 or older has stayed at approximately five years. However, the overall trend masks a small but significant decrease in median tenure among men (that has been increasing in recent years), which was offset by an increase in median tenure among women. Furthermore, the distribution of tenure among these workers has remained relatively constant over this period, but with a tendency toward longer tenures, especially in 2010. Consequently, overall employee tenure has been remarkably stable since 1983, although trends between the genders have moved in opposite directions. However, in 2010, tenure median levels increased virtually across the board (except for the longest-tenured and oldest workers).

As for career jobs, the highest median tenure level for any age group (15.3 years in 1983 for males ages 55–64) certainly does not cover an entire lifetime career, as the median worker would not have started his or her current job until after age 40.

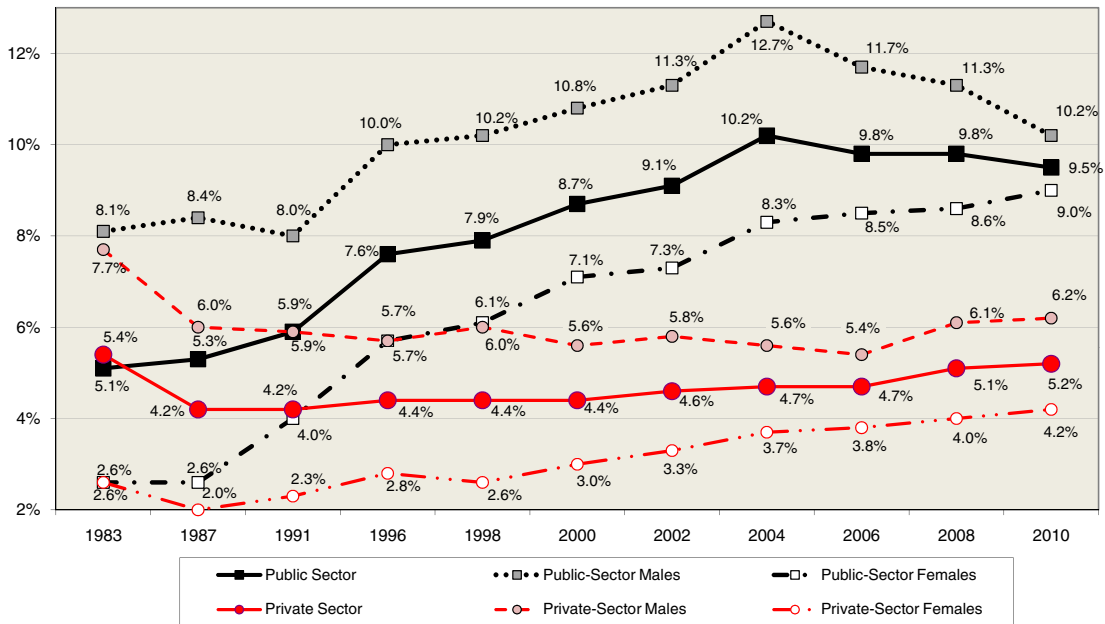
The difference between private-sector and public-sector workers' tenure distribution is quite striking. While private-sector employers in general have been able to maintain a fairly constant percentage of long-term employees (25 or more years of tenure), public-sector employers have had an increasing percentage that continued to grow significantly

Figure 11
**Percentage of Wage and Salary Workers Ages 45–64
 Who Had 25 or More Years of Tenure, by Age, 1982–2010**



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/tenure.t01.htm and ftp.bls.gov/pub/news.release/History/tenure.09192002.news (viewed January 30, 2007), and Employee Benefit Research Institute estimates from the January 2004, 2006, 2008, and 2010 Current Population Surveys.

Figure 12
**Percentage of Wage and Salary Workers (Ages 20 or Older) With 25
 Years or More of Tenure, by Sector and Gender, 1983–2010**



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure," at www.bls.gov/news.release/tenure.toc.htm (viewed January 24, 2002) and Employee Benefit Research Institute estimates from the January 2004, 2006, 2008, and 2010 Current Population Surveys.

from 2002 to 2004 before a drop in 2006 and in 2010. Consequently, public-sector employers are facing the retirement of a significant number of their most experienced workers. This trend has narrowed in the two most recent years of the data, showing that long-time public-sector workers may have reached a peak, while the private sector may be headed for higher percentages of longer-tenured workers.

While the tenure levels presented in this article show that *job stability* has remained relatively constant over the last two decades, these data do not measure *job security*. For instance, an increase in workers' median tenure may be interpreted to mean that job security has declined because those with shorter tenures have been let go and no longer have a job, leaving the longer-tenured workers less secure. Or the median tenure could decline when workers feel more secure and have an increased ability to find other employment, so more workers switch to better jobs—lowering the median tenure. Conversely, workers who feel more secure in their current job may not be motivated to switch employers due to their security, which could lead to a higher median tenure.

Consequently, although tenure is not a good measure of job security, it does provide insight into how long workers choose to or are allowed to remain with their current employer. These ideas are particularly relevant in the most recent years as unemployment has remained high in 2009 and 2010, but median tenure levels increased in 2010. Therefore, it appears that workers who have jobs are mostly staying in them and those without jobs are not likely starting them.

These tenure results indicate that, historically, most workers have repeatedly changed jobs during their working careers, and all evidence suggests that they will continue to do so in the future. This persistence of job changing has several important implications for a worker's potential income in retirement:

Defined Benefit Pensions—Since defined benefit (DB) pensions that are final average plans have a formula based on tenure and average salary, workers who frequently change jobs may not receive the maximum benefit from this type of plan because they do not remain with their same employer for an extended period; in fact, short-tenure workers (with less than five years in a job) may not qualify for any pension benefit at all. Since the median length of employment for all wage and salary workers is just 5.2 years, even many American workers who are currently participating in a DB plan are not likely to receive a significant benefit from the plan.

Lump-Sum Distributions—A worker who changes employers must decide what to do with any retirement plan assets he or she has accumulated, a situation that has become more prevalent with the growth in plans that allow a lump-sum distribution (LSD).⁵ Thus, benefit preservation becomes an important concern for these employees as well as for their plan sponsors. If employees do not retain these assets in some type of savings vehicle for retirement, they may forgo an important source of supplemental income to their Social Security benefits or be forced to remain in the work force. Without this source of income, many workers may face financial difficulties in retirement as health care costs continue to rise and both Medicare and Social Security are experiencing long-term financing issues.

Public Policy—These decisions on LSDs and benefit preservation also have important implications for public policy, as enrollments in means-tested welfare programs could increase significantly if large numbers of retirees prematurely exhaust their own savings reserves.⁶ Furthermore, the number of experienced public-sector employees will likely drop during the period when the social programs are about to face tremendous increase in enrollment, so the public sector must work to retain experienced workers or develop more workers to replace those nearing retirement.

Endnotes

¹ See Paul Yakoboski, "Debunking the Retirement Policy Myth: Lifetime Jobs Never Existed for Most Workers," *EBRI Issue Brief*, no. 197 (Employee Benefit Research Institute, May 1998); Paul Yakoboski, "Male and Female Tenure Continues to Move in Opposite Directions," *EBRI Notes*, no. 2 (Employee Benefit Research Institute, February 1999): 1–4; David Rajnes, "Update on Employee Tenure," *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 2001): 1–8; Craig Copeland, "Employee Tenure," *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 2003): 1–10; Craig Copeland, "Employee Tenure: Stable Overall, but Male and Female Trends Differ," *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 2005): 1–10; Craig Copeland, "Employee Tenure, 2006," *EBRI Notes*, 28 no. 4 (Employee

Benefit Research Institute, April 2007): 1–11, and Craig Copeland, “Employee Tenure, 2008,” *EBRI Notes*, no.1 (Employee Benefit Research Institute, January 2010): 1–12.

² The newest data come from the January 2010 Supplement to the Current Population Survey (CPS), a monthly survey of approximately 60,000 households on demographics, labor force status, and other characteristics of the civilian noninstitutionalized American population. The U.S. Census Bureau conducts this CPS supplement for the U.S. Department of Labor’s Bureau of Labor Statistics (BLS). Tenure levels for previous years come from various other supplements to the CPS. For a further discussion of the data sources, see the Bureau of Labor Statistics’ “Employee Tenure Technical Note,” at www.bls.gov/news.release/tenure.tn.htm (viewed November 26, 2010). Results of research from BLS and EBRI are compiled in this article to present various trends in employee tenure. See the EBRI publications, op. cit., and the Bureau of Labor Statistics’ “Employee Tenure” at www.bls.gov/news.release/tenure.toc.htm (viewed November 26, 2010).

³ Job tenure estimates from 1951 show male median tenure at levels nearly equal to those reported for 2008—9.3 years in 1951, compared with 10.1 years in 2008. The median tenure subsequently jumped to 14.7 years by 1963 and remained at around 14 years until dropping to 10.5 years in 1996.

⁴ BLS reports that the results prior to 1983 are not directly comparable to those in 1983 and after. See “Employee Tenure Technical Note,” op cit., for a discussion of the issue. The results from those prior years are presented here to give an idea of the best estimate for tenure during that time. The tenure questions were again changed in 1996, so while the 1983 questions are close, the most consistent numbers across years start in 1996. The 2006 tenure release from BLS updated numbers going back to 1996 and made some very minor changes to some of the previously published data. See Note in tables of the 2006 BLS press release on tenure at www.bls.gov/news.release/archives/tenure_09082006.pdf (last viewed November 26, 2010).

⁵ See Jack VanDerhei and Craig Copeland, “The Changing Face of Private Retirement Plans,” *EBRI Issue Brief*, no. 232 (Employee Benefit Research Institute, April 2001) for a presentation of the increased reliance of retirees on assets from defined contribution plans. The *Issue Brief* also discusses the growth of cash balance plans, which typically allow retirees to take lump-sum distributions. Also, see Jack VanDerhei and Craig Copeland, “ERISA At 30: The Decline of Private-Sector Defined Benefit Promises and Annuity Payments? What Will It Mean?” *EBRI Issue Brief*, no. 269 (Employee Benefit Research Institute, May 2004) for an analysis of changes in defined benefit plans on retirees’ ability to maintain a similar lifestyle throughout retirement.

⁶ See Craig Copeland, “How Are New Retirees Doing Financially in Retirement?” *EBRI Issue Brief*, no. 302 (Employee Benefit Research Institute, February 2007) for examination of how the first generation of retirees are managing their wealth as they start their retirement years.

Who Might Respond to Financial Incentives That Use Lower Cost Sharing to Change Behavior? Findings from the 2010 Health Confidence Survey

by Paul Fronstin, Employee Benefit Research Institute

Introduction

For many years, employers have been interested in providing individuals with financial incentives in order to make them think about their choice and use of health care services. As far back as 1978, employers adopted Sec. 125 cafeteria plans and flexible spending accounts. More recently, employers have continued to turn their attention to consumer engagement in health care more broadly. In 2001, employers formed a coalition to report health care provider quality measures, and today the group is composed not only of employers but also of consumer groups and organized labor.¹ Also in 2001, a handful of employers started offering health reimbursement arrangements (HRAs)—a then-new type of health plan known as a consumer-driven health plan (CDHP) or an account-based health plan. Ultimately, HRAs paved the way for health savings accounts (HSAs). The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 included a provision to allow individuals with certain high-deductible health plans to contribute to an HSA. In 2005, employers started to focus on value-based insurance designs that seek to encourage the use of high-value services while discouraging the use of services when the benefits are not justified by the costs.²

This article examines whether health care consumers would be interested in, or might find useful, financial incentives that are aimed at changing an individual's health behavior. Understanding how individuals respond to financial incentives in their health coverage is crucial to the design of plans that are effective in steering them to high-quality, cost-effective providers.

Data for this article are from the EBRI/MGA 2010 Health Confidence Survey (HCS), a survey that examines a broad spectrum of health care issues, including Americans' satisfaction with health care today, their confidence in the future of the health care system and the Medicare program, and their attitudes toward health care reform.³

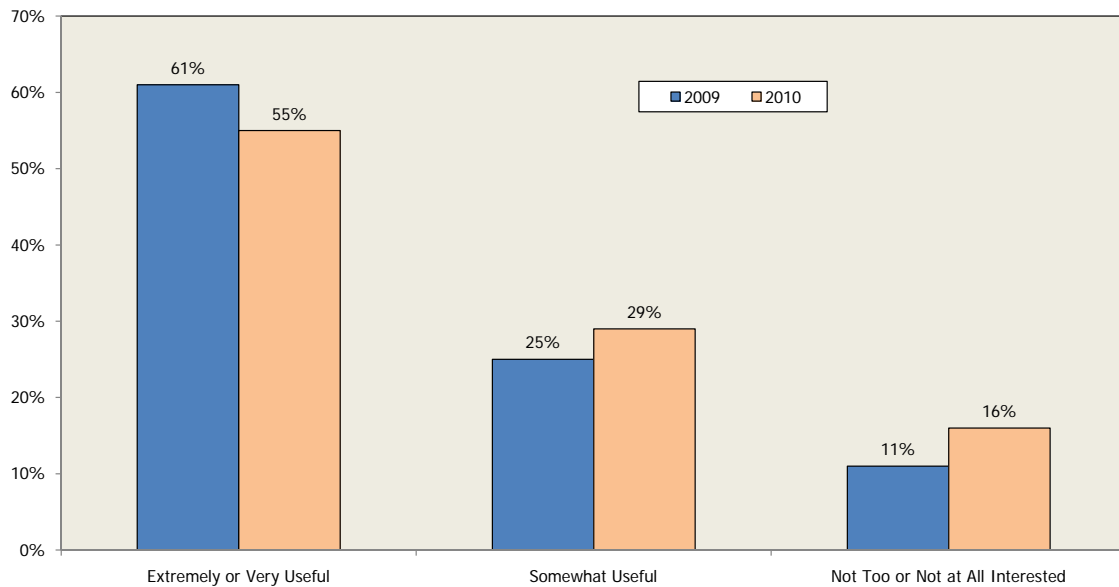
Searching for Information

The 2010 HCS continued a series of questions regarding whether an individual would find an incentive, such as lower cost sharing, useful when choosing a more effective treatment. The survey also continued to ask whether an individual would be interested in receiving medical care from a network of high-quality of providers if there was a lower cost-sharing incentive to do so.

Overall, the percentage of the population reporting that they would find a lower cost-sharing incentive *extremely or very* useful for choosing a more effective treatment declined from 61 percent to 55 percent between 2009 and 2010 (Figure 1). The percentage who reported finding the lower cost sharing *somewhat* useful increased from 25 percent to 29 percent, and the percentage reporting that it would *not* be useful increased from 11 percent to 16 percent. Similarly, the percentage reporting interest in using high-quality provider networks that offer lower cost sharing declined between 2009 and 2010. In 2010, 42 percent reported being *extremely or very* interested in select networks, down from 45 percent in 2009 (Figure 2). The percentage who were *somewhat* interested fell slightly, from 37 percent to 35 percent, while the percentage who were *not* interested in such networks and lower cost sharing increased from 16 percent to 21 percent.

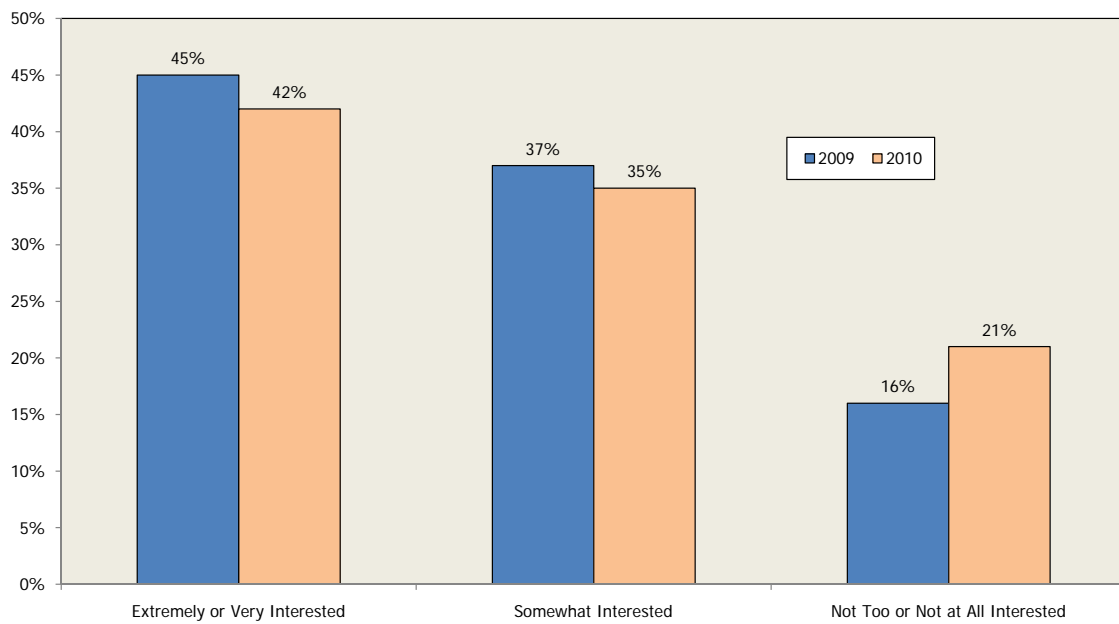
Demographics—The percentage of the population that would find incentives useful for choosing more effective treatments varies with selected demographics. There was no significant difference between men and women. However, younger individuals were more likely than older ones to report that incentives to choose the most effective treatment would be extremely or very useful. Three in 5 (62 percent) of persons under age 45 reported that they

Figure 1
Usefulness of Incentives to Use More
Effective Treatments, 2009–2010



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, 2009–2010 Health Confidence Survey.

Figure 2
Interest in Select Networks and Lower Cost Sharing, 2009–2010



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, 2009–2010 Health Confidence Survey.

Figure 3
Perspectives on Cost-Sharing Incentives and Select Provider Networks, by Demographics, 2010

	Incentive to Choose More Effective Treatment			Interest in Select Networks		
	Extremely or Very Useful	Somewhat Useful	Not too or not at all useful	Extremely or Very Interested	Somewhat interested	Not too or not at all interested
Total	55%	29%	15%	43%	35%	21%
Gender						
a Male	56%	27%	16%	42%	36%	21%
b Female	54%	30%	15%	43%	34%	21%
Age						
c <45	62%	d E 25%	12%	44%	E 42%	D E 13%
d 45-64	52%	e 32%	15%	47%	E 28%	C 23%
e 65+	41%	31%	25%	30%	C D 30%	C D 38%
Marital Status						
f Married	48%	32%	g 19%	41%	33%	g 25%
g Single	60%	F 26%	12%	45%	36%	17%
Race						
h White	51%	32%	i 17%	40%	35%	23%
i Non-white	67%	H 19%	11%	50%	h 33%	16%
Education						
j High school or less	57%	25%	17%	40%	34%	24%
k Some college or trade school	55%	31%	13%	44%	35%	19%
l College graduate or post-graduate	50%	33%	j 16%	45%	35%	19%
Income						
m Less than \$35,000	62%	O 24%	12%	46%	33%	19%
n \$35,000-\$74,999	55%	31%	13%	39%	39%	21%
o \$75,000 or more	46%	30%	23%	44%	37%	18%
Employment Status						
p Working	55%	Q 30%	15%	47%	Q 37%	q 15%
q Retired	44%	30%	24%	32%	P R 28%	P R 36%
r Other	65%	Q 25%	8%	42%	36%	21%
Firm Size						
s Less than 50 employees	60%	28%	10%	56%	t 27%	16%
t 50 employees or more	53%	30%	16%	43%	41%	S 15%

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, 2010 Health Confidence Survey.

Notes:
 Independent Z-Test for Percentages.
 Upper-case letters indicate significance at the 99% level.
 Lower-case letters indicate significance at the 95% level.

would find incentives useful, compared with 52 percent of 45–64 year olds, and 41 percent of individuals age 65 and older (Figure 3).

There is also evidence that minorities and lower-income individuals are more likely to find lower cost-sharing incentives useful when it comes to using more effective treatments. No difference was found by education level.

When it comes to incentives to use networks of high-quality providers, the same age pattern was found: Younger individuals are more likely than older ones to report that they would be interested in such networks if cost sharing was lower. Similarly, minorities would be more interested than whites in lower cost sharing associated with using high-quality networks. There was no difference found with respect to education or income.

Health Status—There is limited variation by health status in the percentage of individuals who think lower cost sharing would be a useful incentive to choosing the most effective treatment, and no variation by health status in the percentage who were interested in lower cost sharing tied to networks of high-quality providers. Among those who reported that their health status had gotten worse during the past five years, about 1 in 5 (18 percent) reported that they did not think that a lower cost-sharing incentive to choose more effective treatments would be useful (Figure 4). In contrast, 1 in 10 (9 percent) of individuals whose health status had gotten better in the last five years did not think that a lower cost-sharing incentive to choose more effective treatments would be useful.

Health Costs—Individuals who reported that they had not experienced an increase in either premiums or cost sharing were more likely than those who had to report that lower cost sharing would not be a useful incentive to choose a more effective treatment. Similarly, those experiencing a cost increase were more likely than those who had not to report that they would be interested in lower cost sharing as it relates to using a limited network of high-quality providers.

Quality of Care and Opinions About the U.S. System—There is some evidence that individuals who are not satisfied with the quality of care they have received are more likely to report that lower cost sharing would be a useful incentive to choose a more effective treatment (Figure 5). Those who rate health care in America as fair or poor are also more likely than those rating it as excellent or very good to report that they would find a lower cost-sharing incentive to use more effective treatments useful.

When it comes to interest in select networks of high-quality providers, individuals who are satisfied with the quality of care they have received are more likely than those not satisfied to report that they would not be interested in lower cost sharing. Similarly, individuals who rate the health care system as excellent, very good, or poor are more likely than those who rate it as fair or poor to be interested in lower cost sharing associated with using a select network.

Empirical Analysis

In addition to the correlations presented above, regression equations were used to determine the characteristics associated with those who were more likely to be affected by low cost-sharing incentives. A regression equation is a statistical model that allows researchers to determine the effect of an independent variable on a dependent variable while holding the effect of all other independent variables constant. The regression equation allows researchers to determine the strength of each factor independently. (More information about the regression equation is available upon request from the author.)

Two regression equations were estimated. The first examined whether an individual reported that lower cost sharing would be extremely or very useful in choosing a more effective treatment. The second examined whether an individual reported that he or she was extremely or very interested in lower cost sharing as an incentive to use a select network of high-performing providers. The independent variables included demographics, job information, health status, variables related to health coverage, and opinions about the U.S. health care system. The regression equations revealed that younger individuals and those affected by premium or cost-sharing increases would be most likely to change reported behavior in response to lower cost sharing. Otherwise, the variables examined in Figures 3, 4, and 5 had little or no statistically significant impact on the likelihood of affecting health behavior through cost sharing.

**Figure 4
Perspectives on Cost-Sharing Incentives and Select Provider Networks by Health Status and Spending, 2010**

	Incentive to Choose More Effective Treatment			Interest in Select Networks		
	Extremely or Very Useful 55%	Somewhat Useful 29%	Not too or not at all useful 15%	Extremely or Very Interested 43%	Somewhat interested 35%	Not too or not at all interested 21%
Total						
Self-Reported Health Status						
a Excellent/Very Good	54%	29%	16%	45%	34%	18%
b Good	52%	30%	17%	38%	38%	24%
c Fair/Poor	60%	25%	13%	42%	32%	24%
Change in Health Status						
d Better	54%	36%	9%	44%	37%	19%
e Same	54%	29%	16%	43%	35%	20%
f Worse	55%	25%	18%	42%	33%	23%
Increased Spending on Health Care						
g Yes	54%	32%	13%	47%	34%	17%
h No	49%	28%	21%	32%	37%	29%

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, 2010 Health Confidence Survey.

Notes:

Independent Z-Test for Percentages.

Upper-case letters indicate significance at the 99% level.

Lower-case letters indicate significance at the 95% level.

**Figure 5
Perspectives on Cost-Sharing Incentives and Select Provider Networks, by Satisfaction With Quality of Care Received and Rating of Health Care, 2010**

	Incentive to Choose More Effective Treatment			Interest in Select Networks		
	Extremely or Very Useful 55%	Somewhat Useful 29%	Not too or not at all useful 15%	Extremely or Very Interested 43%	Somewhat interested 35%	Not too or not at all interested 21%
Total						
Satisfaction with Quality of Care						
a Extremely or very satisfied	50%	30%	18%	42%	32%	25%
b Somewhat satisfied	56%	31%	12%	40%	41%	17%
c Not too or not at all satisfied	66%	a 18%	16%	50%	38%	11%
Rating of Health Care in America						
d Excellent/Very Good	44%	30%	24%	36%	32%	31%
e Good	54%	28%	16%	37%	39%	23%
f Fair/Poor	58%	D 29%	12%	48%	D E 34%	16%

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, 2010 Health Confidence Survey.

Notes:

Independent Z-Test for Percentages

Upper-case letters indicate significance at the 99% level.

Lower-case letters indicate significance at the 95% level.

Conclusion

This article examined differences in individuals reported interest in financial incentives, such as lower cost sharing, that could be used to engage them in decisions regarding appropriate use of health care services and choice of health care provider. Understanding the role of financial incentives in health plan design is crucial to the design of plans that are effective in steering individuals to high-quality, cost-effective providers. Plan sponsors can use this information to better engage workers and their families.

Endnotes

¹ See www.healthcaredisclosure.org/

² See Michael E. Chernew, Allison B. Rosen, and A. Mark Fendrick, "Value-Based Insurance Design," *Health Affairs*, Web Exclusive (Jan. 10, 2007): w195–w203.

³ The HCS was conducted within the United States between May 12 and June 13, 2010, through 20-minute telephone interviews with 1,000 individuals age 21 and older. Random digit dialing with a cell phone supplement was used to obtain a representative cross section of the U.S. population. Interview quotas were established by sex of respondent and employment status, and the data were weighted by gender, age, and education to reflect the actual proportions in the population. The HCS is co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization, and Mathew Greenwald & Associates, Inc., a Washington, DC-based market research firm. The 2010 HCS data collection was funded by grants from 14 private organizations. Staffing was donated by EBRI and Greenwald & Associates. HCS materials and a list of underwriters may be accessed at the EBRI website: www.ebri.org/hcs

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Sibson Consulting: *2011 Segal Health Plan Cost Trend Survey*, www.sibson.com/publications/surveysandstudies/2011trendsurvey.pdf



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