ebri.org
Employee Benefit Research Institute

March 2011 • Vol. 32, No. 3

Notes

E X E C U T I V E S U M M A R Y

The Impact of Modifying the Exclusion of Employee Contributions for Retirement Savings Plans From Taxable Income: Results from the 2011 Retirement Confidence Survey

RESTRICTING OR ENDING EXCLUSION OF EMPLOYEE CONTRIBUTIONS FOR RETIREMENT SAVINGS PLANS FROM TAXABLE INCOME: In recent years, proposals have surfaced to reform the 401(k) system based on the assumption that higher-income individuals receive more tax-related benefits from these programs than do individuals in lower marginal tax brackets (as well as those who may pay no federal income taxes in a particular year). Some of these proposals have included modifications of the current federal income taxation treatment that excludes some or all of the contributions employees make to tax-qualified defined contribution plans.

WHO WOULD BE AFFECTED? Results from EBRI analysis of the 2011 Retirement Confidence Survey (RCS) finds that these proposals may have unintended consequences. Instead of reducing the contribution levels of those with larger taxable incomes (and hence higher marginal tax rates), the RCS results suggest that the categories of full-time workers most likely to reduce (in some cases completely) their contributions are those with the lowest household income; the lowest current amounts in savings and investments; the lowest educational levels; those who are single, never married or not married, or living with a partner; and those who work for small private organizations.

Employer and Worker Contributions to Account-Based Health Plans, 2006–2010

CONSUMER-DRIVEN HEALTH SURVEYS: This report presents findings from the 2010 EBRI/MGA Consumer Engagement in Health Care Survey, as well as earlier surveys, examining the availability of health reimbursement arrangement (HRA) and health savings account (HSA)-eligible plans (consumer-driven health plans, or CDHPs). It also looks at employer and individual contribution behavior.

EMPLOYER CONTRIBUTION LEVELS FALLING: The percentage of workers reporting that their employer contributes to the account was unchanged. But among those with an employer contribution, overall contribution levels have fallen.

INDIVIDUAL CONTRIBUTION LEVELS INCREASING: Individuals with employee-only coverage increased their contribution levels, but those with family coverage did not. Persons in lower-income households were more likely to report that they increased their contributions; however, those in higher-income households did not.

The Impact of Modifying the Exclusion of Employee Contributions for Retirement Savings Plans From Taxable Income: Results From the 2011 Retirement Confidence Survey

By Jack VanDerhei, Employee Benefit Research Institute

Introduction

In recent years proposals have surfaced to reform the 401(k) system based on the assumption that higher-income individuals receive more tax-related benefits from these programs than do individuals in lower marginal tax brackets (as well as those who may pay no federal income taxes in a particular year). Some of these proposals have included modifications of the current federal income taxation treatment that excludes some or all[1] of the contributions employees make to tax-qualified defined contribution plans. This article provides some stylized examples of how the total tax advantage of some defined contribution plans varies by marginal tax rate and contrasts these values with the potential reduction in defined contribution balances if contributions were no longer "deductible."[2] This is followed by an analysis of two new questions from the 21st wave of the Retirement Confidence Survey (RCS)[3] showing how workers[4] would likely react if they were no longer allowed to deduct retirement savings plan contributions from taxable income.

Current Tax Treatment and Potential Impact of Modifications

One of the most common types of retirement savings plan contributions today involves employee contributions to 401(k) plans. Although after-tax contributions to these plans have been utilized for several years (primarily in response to Sec. 402(g) limits and/or the need to comply with ADP/ACP nondiscrimination requirements)[5] and in Roth 401(k) plans that have recently been introduced for many employees, the majority of employee contributions to 401(k) plans are still so-called "before-tax" contributions.

Determining the overall tax advantage of making before-tax contributions to a 401(k) plan involves the prediction of several factors, including amounts and timing of contributions, marginal tax rates during the accumulation and decumulation periods, rates of return, and withdrawal behavior during the decumulation period. Figure 1 shows results for a highly stylized example in which an individual currently age 55 makes annual (end-of-year) contributions of a constant amount to a 401(k) plan for 10 years and then immediately takes the account balance out as a lump sum, paying taxes on the entire amount. In contrast, a second scenario is analyzed in which an individual currently age 55 makes annual (end of year) contributions of the after-tax value of the same amount (viz., (1-marginal tax rate) times the amount contributed in the first scenario) to a non-tax-advantaged vehicle for 10 years and then takes the account balance out as a lump sum paying no additional taxes at that time. Because the investment in the second scenario is made in a non tax-advantaged vehicle, it is assumed that federal income taxes on the investment income are paid at the end of each year.[6] The total tax savings are computed as the difference between the net accumulation after taxes from Scenario 1 and the net accumulations after taxes from Scenario 2. This savings is then divided by the net accumulation after taxes from Scenario 1 to show the advantage as a percentage of the amount that would be accumulated after 10 years.

Each of these scenarios is calculated at investment rates of return of 2.5, 5.0, and 7.5 percent, and marginal tax rates of 15, 28, and 35 percent. Rates of return and marginal tax rates are assumed to remain constant over the 10-year period. Figure 1 shows that within each assumed rate of return scenario, the total tax advantage (as measured by the percentage increase in retirement income available after 10 years of contributions) increases with higher tax brackets. However the absolute difference between the total tax advantage of the highest vs. the lowest tax bracket varies with the assumed rate of return. At a 7.5 percent rate of return assumption, the absolute difference is 6.4 percent; however, this decreases to 2.2 percent at a 2.5 percent rate of return assumption.

Some proposals have focused on this disparity by suggesting that the deductibility of 401(k) contributions be either reduced or eliminated. Presumably, those who continued to make contributions under these proposals on an after-tax basis would be able to recover those contributions free of federal income tax when withdrawn and pay taxes only on the investment income similar to what is available under the current tax code for non-Roth after-tax contributions.

Assuming that marginal tax rates will be constant over the accumulation and decumulation periods and that investment income continues to be tax-deferred under these proposals, one may expect that there would be little change in overall tax advantages accruing under the proposed 401(k) system, unless the participants are constrained in the amount of funds they have to contribute each year.

Assuming that the participants need to reduce their contributions to the point that they are only able to contribute (1-marginal tax rate) times the previous amount because of their financial constraints, and that 401(k) contributions are no longer deductible (in any amount), Figure 2 shows the percentage reduction in 401(k) balances from eliminating deductions of contributions as a function of marginal tax rates and assumed rate of return. Similar to Figure 1, within each rate of return scenario, the impact is greater for those in the larger tax brackets: a 5.9 percent difference between the highest and lowest tax brackets at a 7.5 percent rate of return but reducing to a 2.1 percent difference at a 2.5 percent rate of return.

Results From the 2011 Retirement Confidence Survey

Although this highly stylized analysis suggests that higher-income employees would be the most likely to be negatively affected by a proposal to cut or eliminate the deductibility of 401(k) contributions (at least to the point they are constrained with respect to the annual funds available to contribute to a 401(k) plan),[7] behavioral economics[8] has shown that the reaction of employees in situations similar to this are often at odds with what would have been predicted by an objective concerned simply with optimizing a financial strategy. In an attempt to better understand potential employee behavior with respect to a proposed elimination of deductions for 401(k) contributions, this year's RCS included two new questions. The first asked respondents how important is being able to deduct their retirement savings plan contributions from their taxable income in encouraging them to save for retirement. When confined to full-time workers (n=591), the weighted results were as follows:[9]

Not at all important	4.3%
Not too important	5.0%
Somewhat important	27.8%
Very important	61.5%

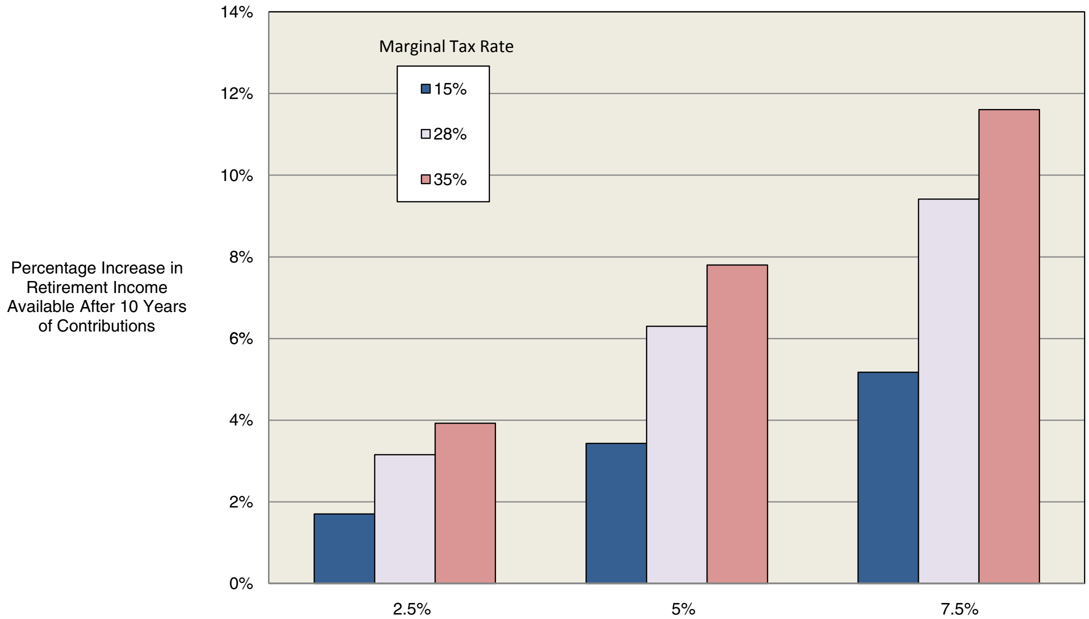
If one were to look at this from a strictly financial perspective, one would assume that the lower-income individuals (those most likely to pay no or low marginal tax rates and therefore have a smaller financial incentive to deduct retirement savings contributions from taxable income) would be least likely to rate this as "very important." However, Figure 3 shows that those in the lowest household income category ($15,000 to less than $25,000) actually have the largest percentage of respondents classifying the tax deductibility of contributions as very important (76.2 percent).

The second question asked of those currently saving for retirement was "Suppose you were no longer allowed to deduct retirement savings plan contributions from your taxable income. What do you think you (and your spouse) would be most likely to do?" When confined to full-time workers (n=460), the weighted results were as follows:[10]

Stop saving for retirement altogether	4.7%
Reduce the amount you save	20.5%
Continue to save what you do now	56.2%
Increase the amount you save for retirement	17.1%

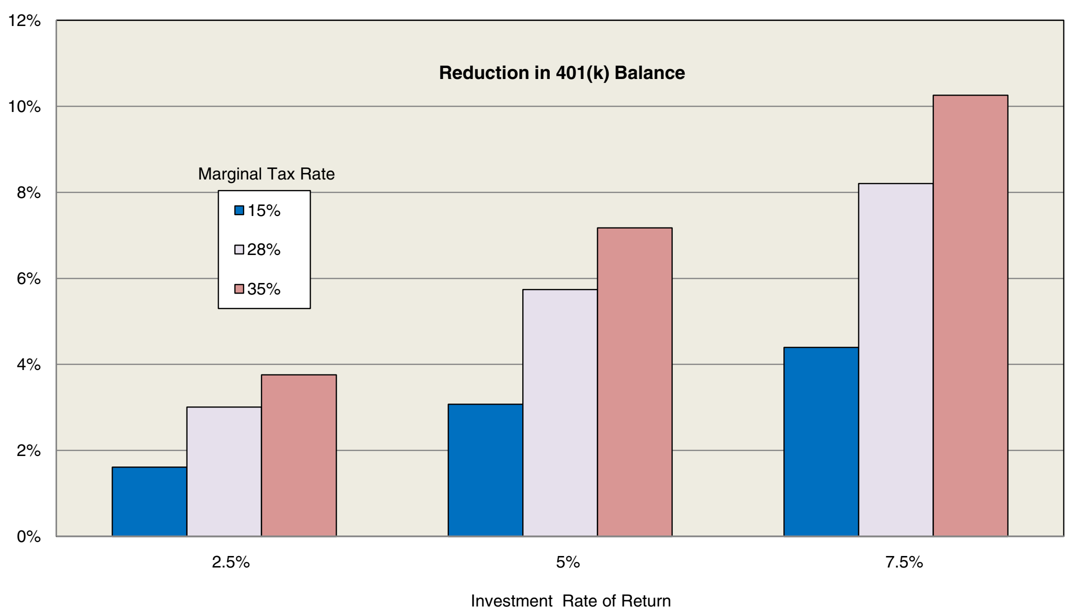
Combining the first two categories above (and eliminating those who refused to answer or responded that they did not know) results in approximately 1 in 4 full-time workers (25.6 percent) who indicated that they would reduce (in some cases completely) their contributions if the ability to deduct them was eliminated. Figure 4 shows the distribution of the percentage of full-time workers currently saving for retirement who state that they would either stop saving for

Figure 1
Stylized Examples of the Total Tax Advantage of a 401(k) Plan, as a Function of Marginal Tax Rate and Assumed Rate of Return



Source: Employee Benefit Research Institute (ebri.org) calculations. See text for explanation of scenarios and assumptions.

Figure 2
Stylized Examples of the Reduction in 401(k) Plan Balances From Eliminating Deductions of Contributions, as a Function of Marginal Tax Rate and Assumed Rate of Return



Source: Employee Benefit Research Institute (ebri.org) calculations. See text for explanation of scenarios and assumptions.

retirement altogether or reduce the amount they save as a function of household income. Similar to Figure 3, the lowest-income category ($15,000 to less than $25,000) has the largest negative reaction to this proposal, with 56.7 percent indicating a savings reduction.

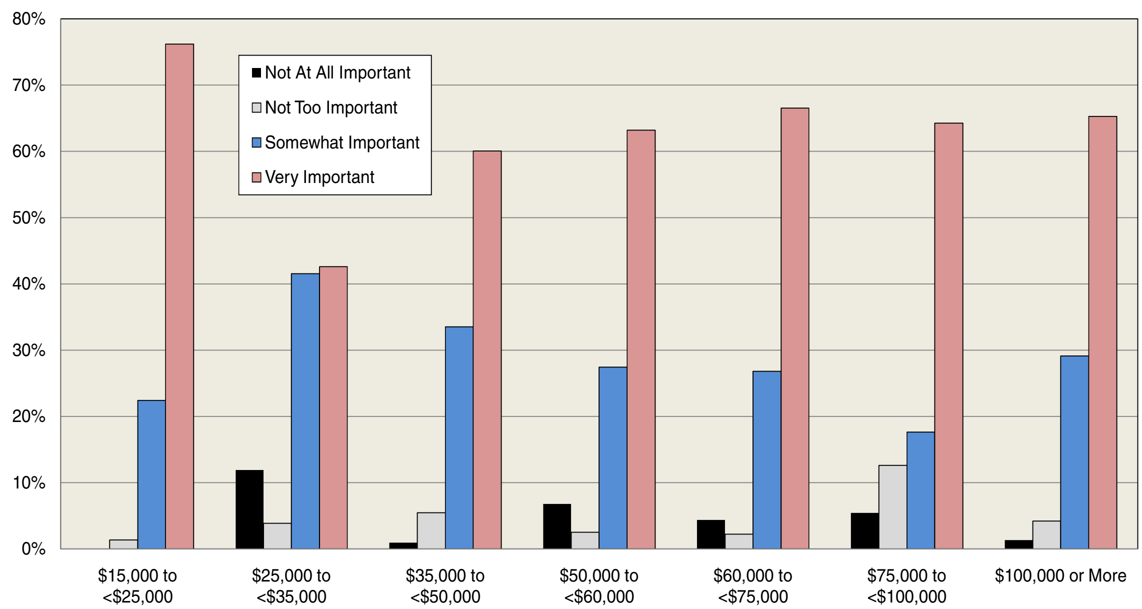
A similar occurrence takes place when the percentage of those stating they would reduce the amount they are saving or stop saving altogether is displayed by the amount they currently have in savings and investments, not including the value of their primary residence or the value of defined benefit plans. Figure 5 shows that there is a significant increase in the self-reported propensity to reduce savings for those in the lowest savings categories. For example, of the full-time workers who are currently saving for retirement who report that they currently have less than $1,000, 71.3 percent indicate they would reduce the amount saved. This value declines to 38.8 percent for those with savings of $1,000 to less than $10,000.

Given these results, it is not surprising that the higher propensity to indicate a reduction in savings as a response to eliminating the deduction for contributions is also observed for those with lower educational levels. Figure 6 shows that 32.2 percent of high school graduates indicate they would reduce savings, whereas only 22.1 percent of those with a graduate or professional degree have a similar response.

Marital status also appears to have a very significant impact on the likelihood that a full-time worker currently saving for retirement would reduce the amount saved. Figure 7 shows that more than 2 in 5 respondents that are single, never married (44 percent) as well as those not married, living with a partner (47 percent) would reduce their savings. However, only 22 percent of married respondents, 16 percent of divorced or separated, and 14 percent of widowed respondents indicated they would reduce their savings.

Figure 3

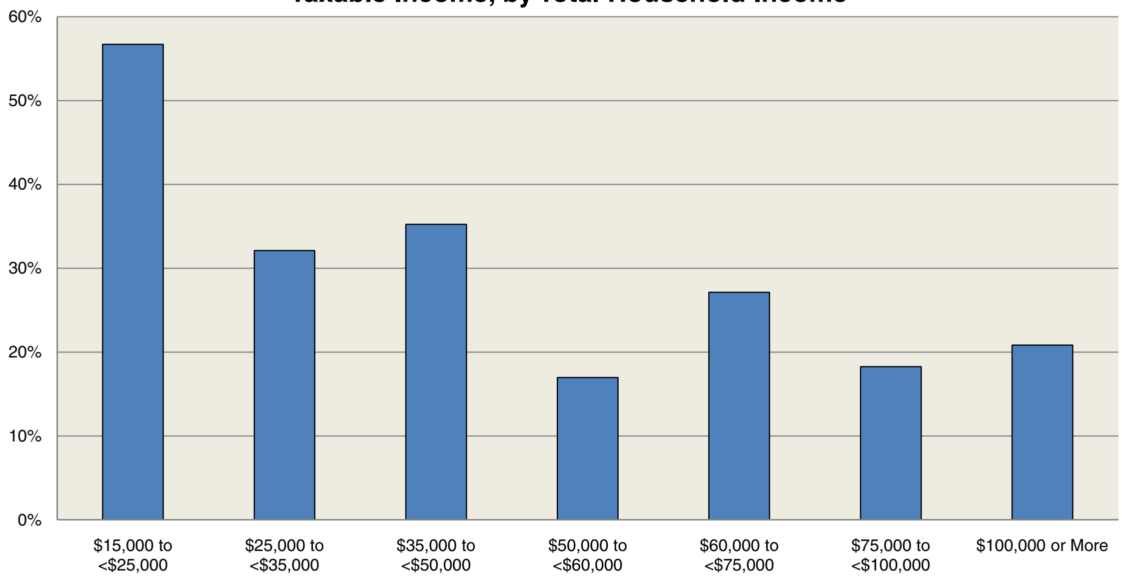
Importance of Being Able to Deduct Retirement Savings Plan Contributions From Taxable Income as an Encouragement to Save for Retirement, Among Full-time Workers, by Total Household Income



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Figure 4

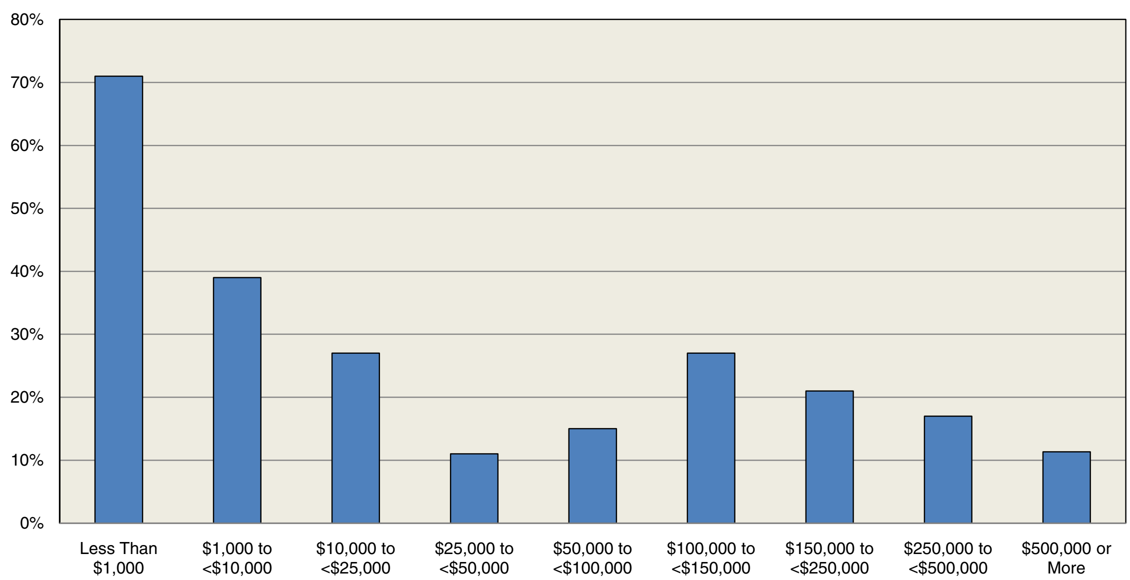
Percentage of Full-time Workers Currently Saving for Retirement Stating They Would Reduce the Amount Saved If They Were No Longer Allowed to Deduct Retirement Savings Plan Contributions From Taxable Income, by Total Household Income



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Figure 5

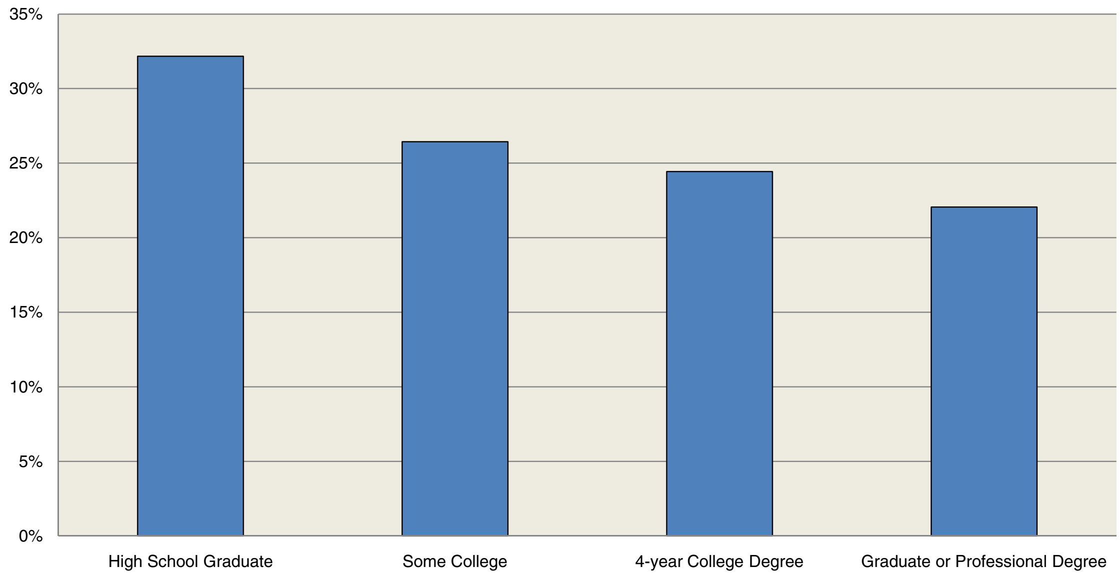
Percentage of Full-time Workers Currently Saving for Retirement Stating They Would Reduce the Amount Saved If They Were No Longer Allowed to Deduct Retirement Savings Plan Contributions From Taxable Income, by Amount They Currently Have in Savings



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence

Figure 6

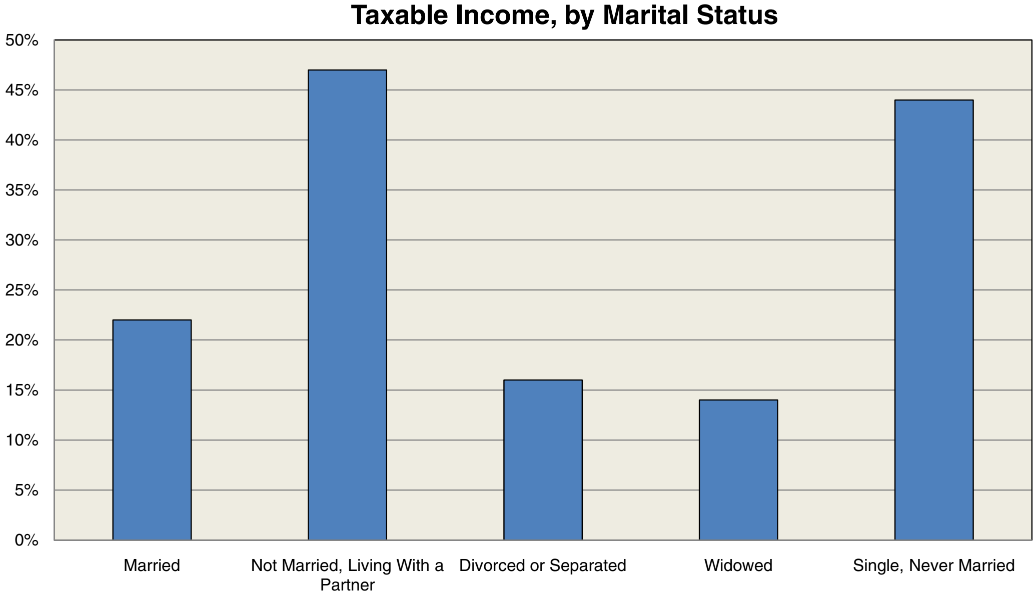
Percentage of Full-time Workers Currently Saving for Retirement Stating They Would Reduce the Amount Saved If They Were No Longer Allowed to Deduct Retirement Savings Plan Contributions From Taxable Income, by Education



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Figure 7

Percentage of Full-time Workers Currently Saving for Retirement Stating They Would Reduce the Amount Saved If They Were No Longer Allowed to Deduct Retirement Savings Plan Contributions From Taxable Income, by Marital Status



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

The type of entity that the respondent works for also appears to have a significant impact on their likelihood to reduce savings. Figure 8 shows that within private organizations, only 22 percent of the employees working for corporations with more than 1,000 employees indicate that they would reduce savings. This percentage increases to 30 percent for employees working for businesses with 100–1,000 employees, and 35 percent for businesses with less than 100 employees. Public employees have a lower-than-average propensity to decrease contributions (20 percent for federal employees and 16 percent for state and local employees).

Many workers may have two financial advantages to participate in an employer-sponsored retirement plan: An employer match, as well as the tax deductibility of contributions. Everything else equal, it would be logical to assume those employees who do not have an employer match available would be more sensitive to the potential loss of the tax deductibility. This is indeed what is observed in Figure 9, where the percentage of those without an employer match indicating that they would reduce the amount saved is much larger (31.2 percent) than those whose employer matches all or part of their contributions (22.5 percent).

Conclusion

Proposals to modify the exclusion of employee contributions for retirement savings plans from taxable income may have unintended consequences according to results from the 2011 RCS. Instead of reducing the contribution levels of those who might be thought to be most impacted (i.e., those with larger taxable incomes and hence higher marginal tax rates), the RCS results suggest that the categories of full-time workers most likely to reduce (in some cases completely) their contributions are those:

- With the lowest household income.
- With the lowest current amounts in savings and investments, not including the value of their primary residence or the value of defined benefit plans.
- With the lowest educational levels.
- Who are single, never married or not married, living with a partner.
- Who work for small private organizations.

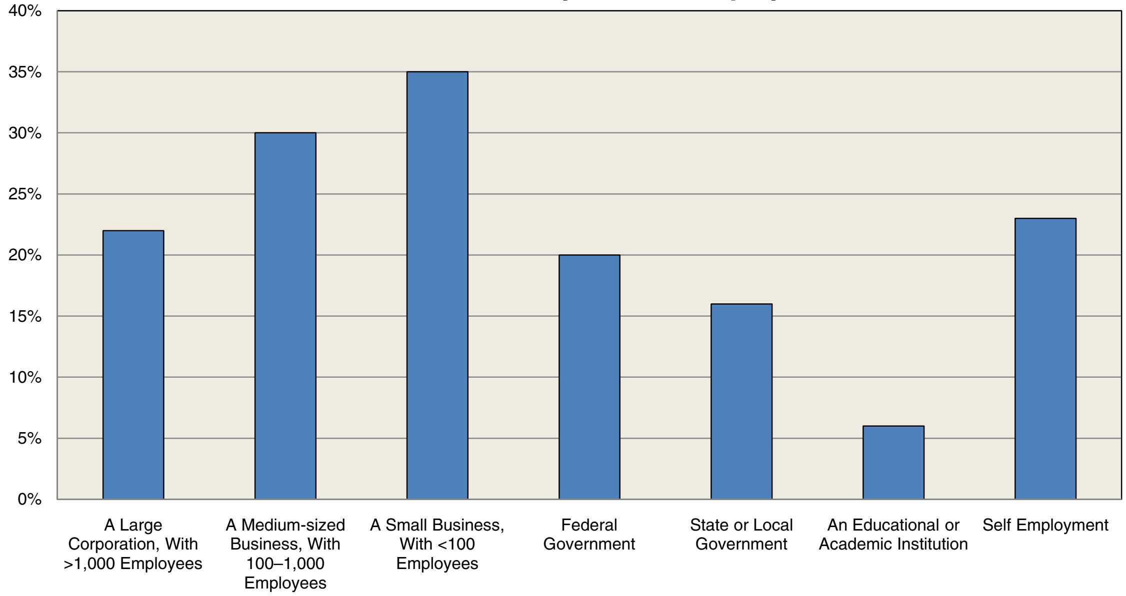
VanDerhei and Copeland (July 2010) document a significant reduction in the percentage "at risk" for inadequate retirement income between 2003 and 2010, based in large part on the advent of auto-enrollment in 401(k) plans; however, for the one-third of the households with the lowest indexed[11] pre-retirement income, the at-risk percentages, while much smaller (they were 80 percent in 2003) are still extremely high (70 percent in 2010). Of course, when one limits the analysis to those who are already saving, the numbers improve substantially: among Gen Xers without any future eligibility for participation in a defined contribution plan, the at-risk percentage is 60 percent, but it drops all the way to 20 percent for those with 20 or more years of future eligibility.[12]

However, the potential increase of at-risk percentages resulting from a substantial portion of low-income households decreasing or eliminating future contributions to savings plans as a reaction to the exclusion of employee contributions for retirement savings plans from taxable income needs to be analyzed carefully when considering the overall usefulness of such proposals.

References

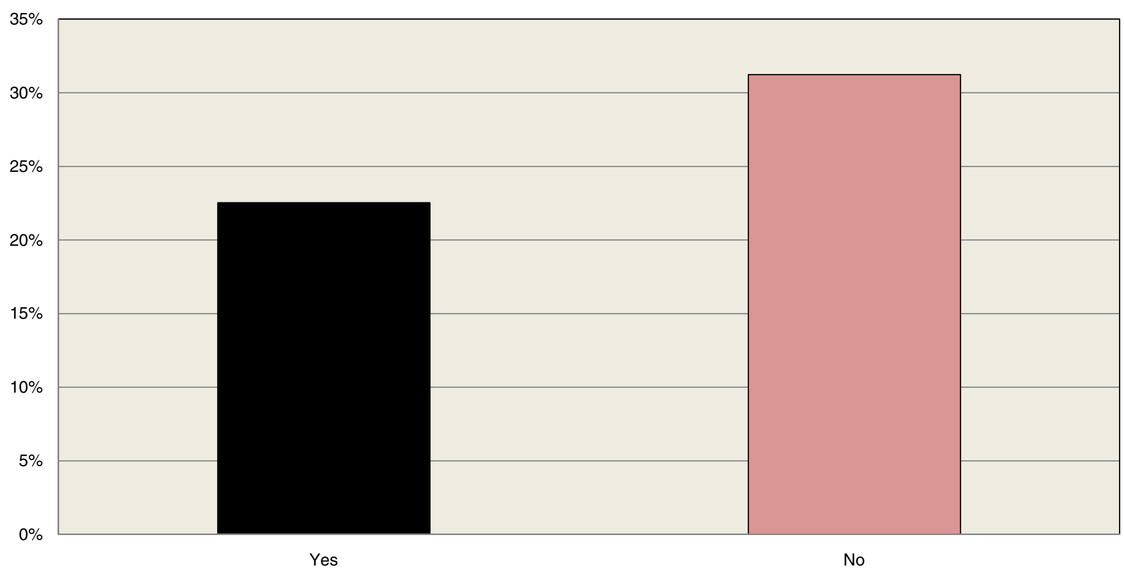
- Helman, Ruth, Craig Copeland and Jack VanDerhei. "The 2011 Retirement Confidence Survey: Confidence Drops to Record Lows, Reflecting 'the New Normal.'" *EBRI Issue Brief,* no. 355 (Employee Benefit Research Institute, March 2011).
- DiCenzo, Jodi. "Behavioral Finance and Retirement Plan Contributions: How Participants Behave, and Prescriptive Solutions," *EBRI Issue Brief,* no. 301 (Employee Benefit Research Institute, January 2007).
- VanDerhei, Jack. "Retirement Income Adequacy for Today's Workers: How Certain, How Much Will It Cost, and How Does Eligibility for Participation in a Defined Contribution Plan Help?" *EBRI Notes,* no. 9 (Employee Benefit Research Institute, September 2010): 13−20.
- VanDerhei, Jack, and Craig Copeland. "The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects." *EBRI Issue Brief,* no. 344 (Employee Benefit Research Institute, July 2010).

Figure 8
Percentage of Full-time Workers Currently Saving for Retirement Stating They Would Reduce the Amount Saved If They Were No Longer Allowed to Deduct Retirement Savings Plan Contributions From Taxable Income, by Current Employer



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Figure 9
Percentage of Full-time Workers Currently Saving for Retirement Stating They Would Reduce the Amount Saved If They Were No Longer Allowed to Deduct Retirement Savings Plan Contributions From Taxable Income, by Existence of Employer Match



Source: Employee Benefit Research Institute (ebri.org) and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence

Endnotes

[1] Elective Deferrals are limited to $16,500 in 2011 by Internal Revenue Code Sec. 402(g)(1). A plan may permit participants who are age 50 or over at the end of the calendar year to make additional elective deferral contributions. The elective deferral limit increases by $5,500 for those over age 50 in 2011. Effective for years beginning on or after January 1, 2006, if a plan adopts a Roth feature, employees can designate some or all of their elective contributions as designated Roth contributions (which are included in gross income), rather than traditional, pre-tax elective contributions.

[2] Under a 401(k) plan, an employee can elect to have the employer contribute a portion of the employee's cash wages to the plan on a pre-tax basis. These deferred wages (elective deferrals) are not subject to federal income tax withholding at the time of deferral, and they are not reflected as taxable income on the employee's Form 1040, U.S. Individual Income Tax Return.

Although this is does not technically mean that the employee contributions are "deductible," it was easier to specify that treatment to Retirement Confidence Survey respondents using the common parlance.

[3] These findings are part of the 21st annual Retirement Confidence Survey (RCS), a survey that gauges the views and attitudes of working-age and retired Americans regarding retirement, their preparations for retirement, their confidence with regard to various aspects of retirement, and related issues. The survey was conducted in January 2011 through 20-minute telephone interviews with 1,258 individuals (1,004 workers and 254 retirees) age 25 and older in the United States. Random digit dialing was used to obtain a representative cross section of the U.S. population. To further increase representation, a cell phone supplement was added to the sample. Starting with the 2001 wave of the RCS, all data are weighted by age, sex, and education to reflect the actual proportions in the adult population. Data for waves of the RCS conducted before 2001 have been weighted to allow for consistent comparisons; consequently, some data in the 2011 RCS may differ slightly with data published in previous waves of the RCS. Data presented in tables in this report may not total to 100 due to rounding and/or missing categories. In theory, the weighted sample of 1,258 yields a statistical precision of plus or minus 3 percentage points (with 95 percent certainty) of what the results would be if all Americans age 25 and older were surveyed with complete accuracy. There are other possible sources of error in all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them. The RCS was 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 2011 RCS data collection was funded by grants from more than two dozen public and private organizations, with staff time donated by EBRI and Greenwald. RCS materials and a list of underwriters may be accessed at the EBRI Web site: www.ebri.org/rcs.

For more detail, see Helman, Copeland and VanDerhei (March 2011, online at www.ebri.org/surveys/rcs/2011/).

[4] In the RCS, retiree refers to individuals who are retired or who are age 65 or older and not employed full time.

Worker refers to all individuals who are not defined as retirees, regardless of employment status.

[5] In order to ensure that a traditional 401(k) plan satisfies nondiscrimination requirements, the employer must perform annual tests, known as the Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) tests, to verify that deferred wages and employer matching contributions do not discriminate in favor of highly compensated employees. Other types of 401(k) plans (e.g., safe harbor 401(k) plans) are subject to less complex rules.

[6] All investment income is assumed to be taxed as ordinary income in this example.

[7] Actually, the constraints would need to be compared to the 402(g) limit as well as any plan-specific constraints on tax contributions (primarily for the Highly Compensated Employees).

[8] DiCenzo (January 2007).

[9] 1.4 percent responded that they did not know.

[10] 18 percent responded that they did not know and 0.35 percent refused to answer.

[11] See endnote 17 of VanDerhei and Copeland (July 2010) for more detail.

[12] VanDerhei (September 2010) also demonstrates that eligibility for a defined contribution retirement plan has a significant positive impact on reducing the additional compensation most families need to achieve the desired level of retirement income adequacy.

Employer and Worker Contributions to Account-Based Health Plans, 2006–2010

by Paul Fronstin, Employee Benefit Research Institute

Introduction

Employers have been interested in bringing aspects of consumerism into health plans for many years. As far back as 1978, they adopted Sec. 125 cafeteria plans and flexible spending accounts. More recently, employers have been increasingly turning their attention to consumer engagement in health care. In 2001, they introduced account-based health plans—a combination of health plans with deductibles of at least $1,000 for employee-only coverage and tax-preferred savings or spending accounts that workers and their families can use to pay their out-of-pocket health care expenses. A few employers first started offering account-based health plans in 2001, when they began to offer health reimbursement arrangements (HRAs).[1] In 2004, they started offering health plans with health savings accounts (HSAs).[2] By 2009, 15 percent of employers with 10–499 workers and 20 percent of employers with 500 or more workers offered either an HRA or HSA-eligible plan.[3] Employers have also taken a broader approach to consumer engagement through various other initiatives.[4]

This report presents findings from the 2008, 2009, and 2010 EBRI/MGA Consumer Engagement in Health Care Survey and the 2006 and 2007 EBRI/Commonwealth Fund Consumerism in Health Care Surveys.[5] It examines the availability of HRA and HSA-eligible plans (consumer-driven health plans, or CDHPs), as well as employer and individual contribution behavior.

CDHP Eligibility

According to the 2010 EBRI/MGA Consumer Engagement in Health Care Survey, about 5.7 million adults ages 21–64 with private health insurance, or 5 percent of the adult population with private health insurance, were enrolled in an HRA or had a high-deductible plan with an HSA in 2010, up from 4 percent in 2009. An additional 6.3 million adults ages 21–64 with private health insurance, or 4.5 percent, reported that they were eligible for an HSA but did not have such an account. Thus, overall, 12.1 million adults ages 21–64 with private insurance, representing 9.5 percent of that market, were either in a CDHP or a high-deductible plan that was eligible for an HSA, but had not opened an account.

It was found that a significant percentage of workers with traditional health benefits were eligible for account-based health plans. Among individuals with traditional employment-based health benefits and a choice of health plan, 38 percent were eligible for an HRA or HSA-based plan in 2010, about the same percentage as were eligible for such plans in 2008 and 2009 (Figure 1).

Employer Contributions

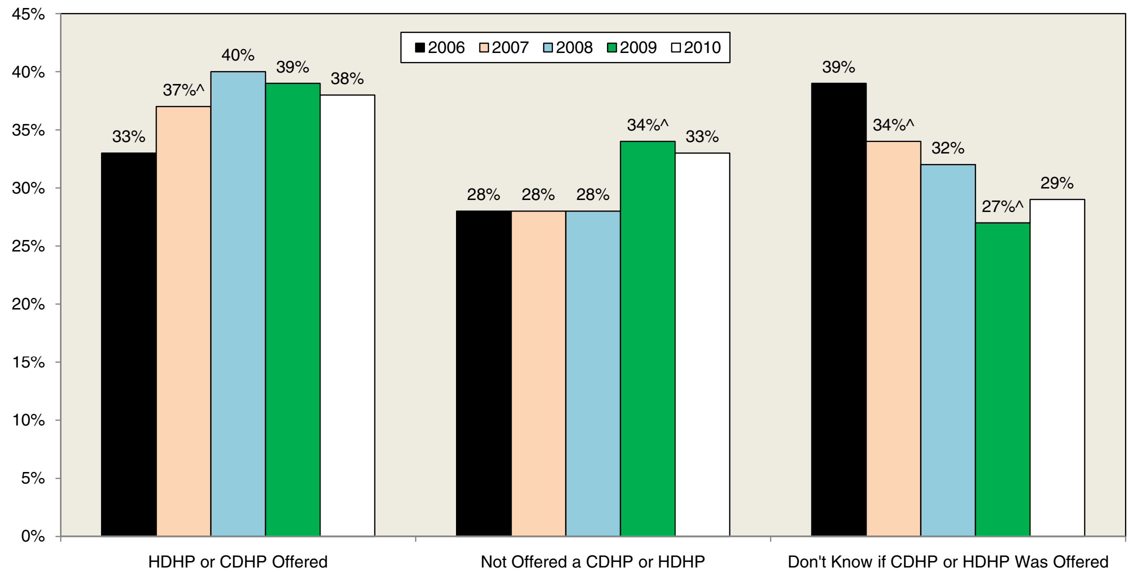
Nearly two-thirds of workers with an HRA or HSA reported that their employer contributed to the account in 2010 (Figure 2). The percentage of workers with an HRA or HSA plan whose employer contributed to the account did not change significantly after 2006, other than a drop from 67 percent in 2008 to 63 percent in 2009.

Among workers with an employer contribution, those with employee-only coverage saw their annual employer contributions increase between 2006 and 2008, but fall in 2009 and 2010. Between 2006 and 2008, the percentage reporting that their employer contributed $1,000 or more to the account increased from 26 percent to 37 percent (Figure 3). It fell to 32 percent in 2009 and to 28 percent in 2010. The percentage of workers with an employer contribution of $200−$499 increased from 14 percent to 17 percent between 2009 and 2010, although the increase was not statistically significant.

Among workers with family coverage, employer contribution levels decreased as well in 2010. The percentage reporting a contribution of $500−$749 increased from 6 percent to 12 percent between 2009 and 2010, while the

Figure 1

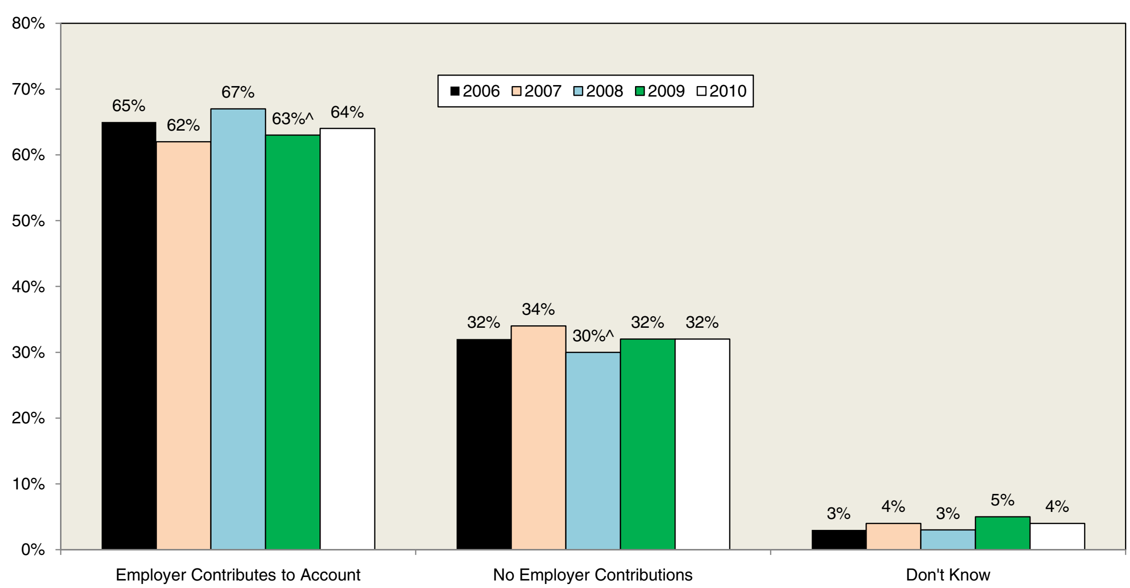
Percentage of Individuals With Traditional[1] Employment-Based Health Benefits Offered HDHP[2] or CDHP,[3] 2006–2010



Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] Traditional = health plan with no deductible or <$1,000 (individual), <$2,000 (family).
[2] HDHP = High-deductible health plan with deductible $1,000+ (individual), $2,000+ (family), no account.
[3] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at p ≤ 0.05 or better.

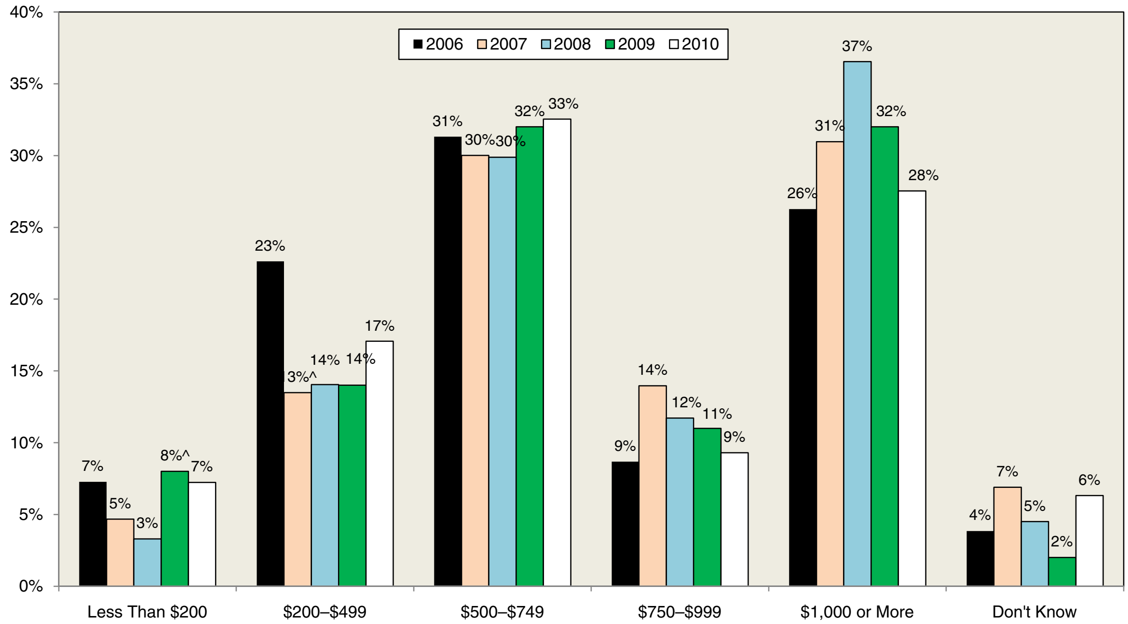
Figure 2

Percentage of Individuals With Employer Contribution to Account, Among Persons With Employment-Based Health Benefits and CDHP,[1] 2006–2010



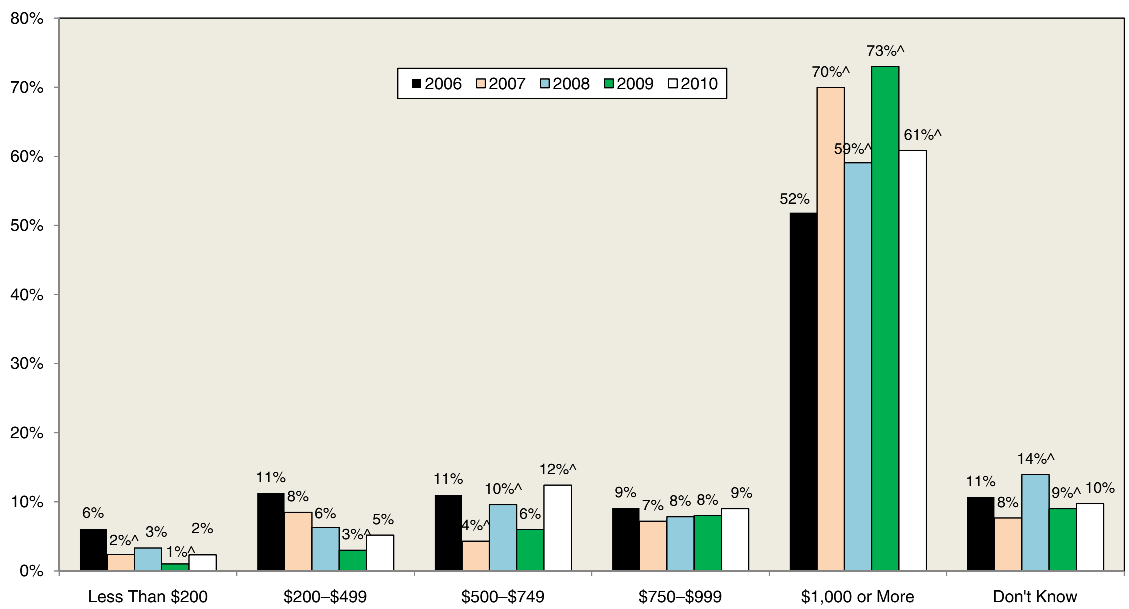
Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at p ≤ 0.05 or better.

Figure 3
Annual Employer Contributions to the Account, Among Persons With Employee-Only CDHP,[1] 2006–2010



Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at $p \leq 0.05$ or better.

Figure 4
Annual Employer Contributions to the Account, Among Persons With Family CDHP,[1] 2006–2010



Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at $p \leq 0.05$ or better.

percentage reporting a contribution of $1,000 or more decreased from 73 percent to 61 percent (Figure 4). However, a majority of workers with family coverage continued to receive a contribution of $1,000 or more.

Individual Contributions

Individuals' contributions to HSA plans have increased. Between 2006 and 2009, the percentage of individuals with employee-only coverage contributing nothing to an HSA decreased from 28 percent to 12 percent (Figure 5). It increased to 15 percent in 2010 but the change was not statistically significant. In contrast, the percentage contributing between $1,000 and $1,499 increased from 12 percent in 2009 to 18 percent in 2010, while the percentage contributing $1,500 or more remained at 37 percent.

Among persons with family coverage, contribution levels were unchanged in 2010. The percentage not making any contributions was unchanged at 12 percent in 2010. The percentage contributing less than $500 was 8 percent, while the percentage contributing $1,500 or more was 50 percent (Figure 6). Individuals with family coverage are expected to contribute more than individuals with employee-only coverage because deductibles are higher for family coverage.

Income Differences

Generally, lower-income persons with HSAs are less likely to make a contribution to the account than higher-income persons. One-fifth of persons in households with less than $50,000 or more in income did not contribute to the account in 2010 (Figure 7), compared with 12 percent of persons with $50,000 in household income who did not contribute (Figure 8). For the lower-income group, the percentage contributing $1,500 or more increased between 2009 and 2010 from 21 percent to 31 percent, but among the higher-income group, the percentage contributing $1,500 or more fell from 54 percent to 47 percent.

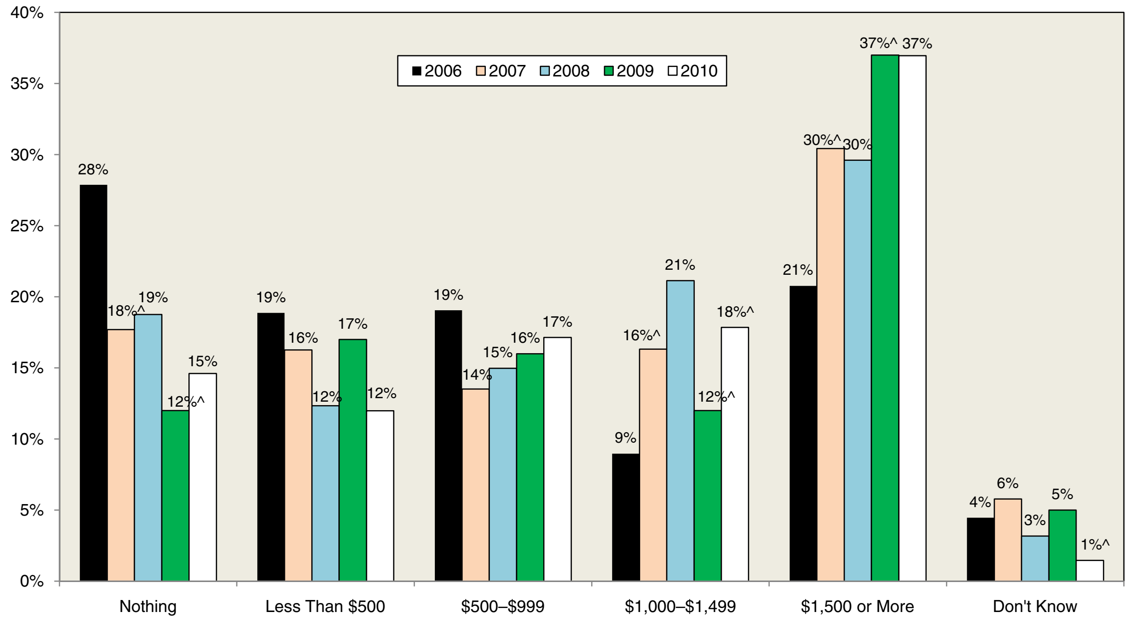
Health Differences

Persons with a health condition were slightly more likely than those without one to contribute to an HSA.[6] Those with health problems contribute slightly more than those without health problems. Among persons without health problems, 40 percent contributed $1,500 or more in 2010 (Figure 9). Similarly, 51 percent of those with a health problem contributed $1,500 or more in 2010 (Figure 10).

Conclusion

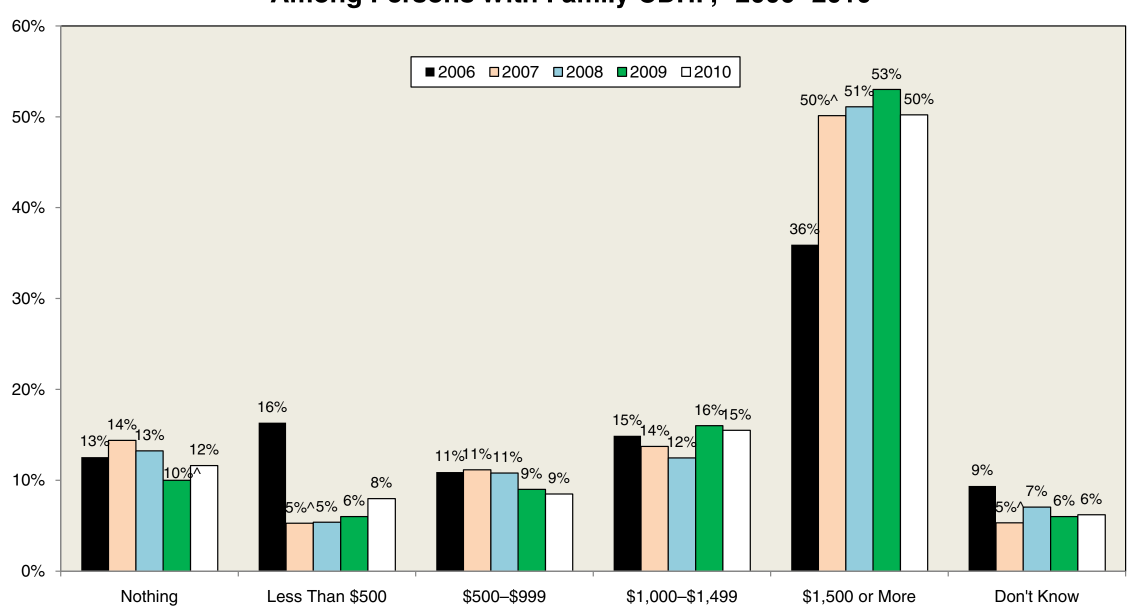
The share of the adult population with private health insurance enrolled in an HRA or had a high-deductible plan with an HSA remains small but continues to grow. For the second year in a row it was found that the percentage of workers reporting that their employer contributed to the account declined. In 2008, 37 percent of workers reported an employer contribution of $1,000 or more. By 2010, it was down to 28 percent. This may be due to the weak economy. Workers with employee-only coverage responded by increasing their own contributions, but those with family coverage did not. Lower-income individuals increased their contributions, whereas higher-income individuals did not. Higher deductibles may also partly explain higher family contributions.

Figure 5
Annual Individual Contributions to the Account, Among Persons With Employee-Only CDHP,[1] 2006–2010



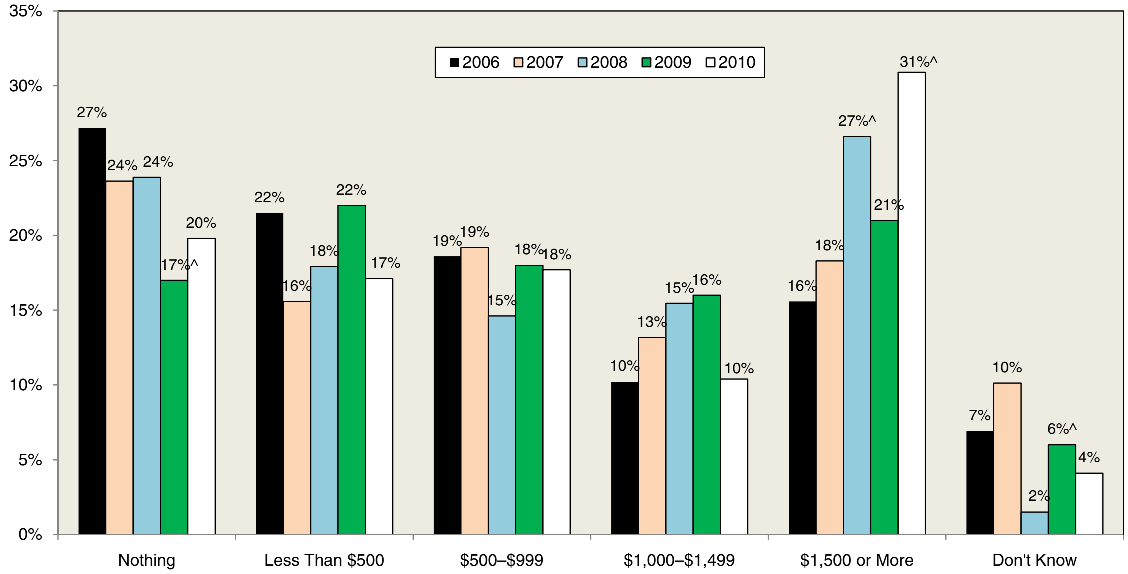
Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at $p \leq 0.05$ or better.

Figure 6
Annual Individual Contributions to the Account, Among Persons With Family CDHP,[1] 2006–2010



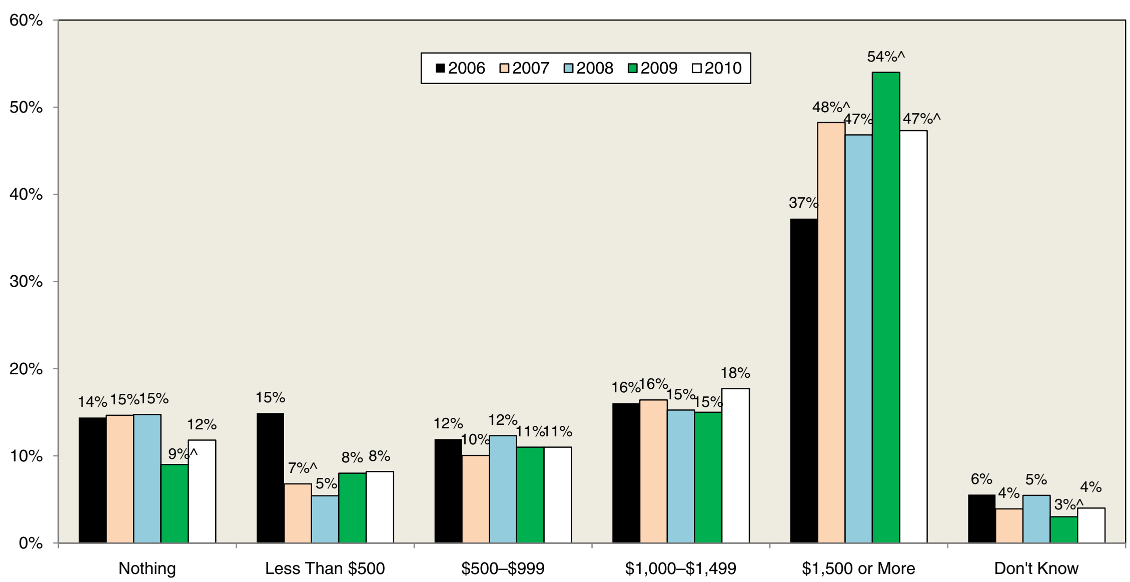
Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at $p \leq 0.05$ or better.

Figure 7
Annual Individual Contributions to the Account, Among Persons With Employee-Only or Family CDHP[1] and Household Income Under $50,000, 2006–2010



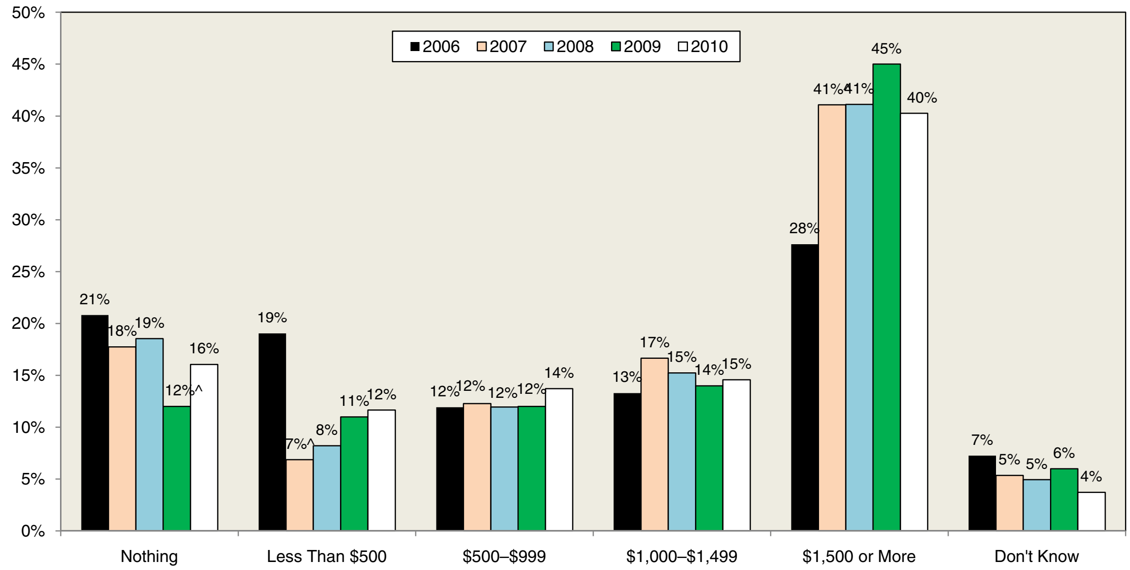
Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at $p \leq 0.05$ or better.

Figure 8
Annual Individual Contributions to the Account, Among Persons With Employee-Only or Family CDHP[1] and Household Income $50,000 or More, 2006–2010



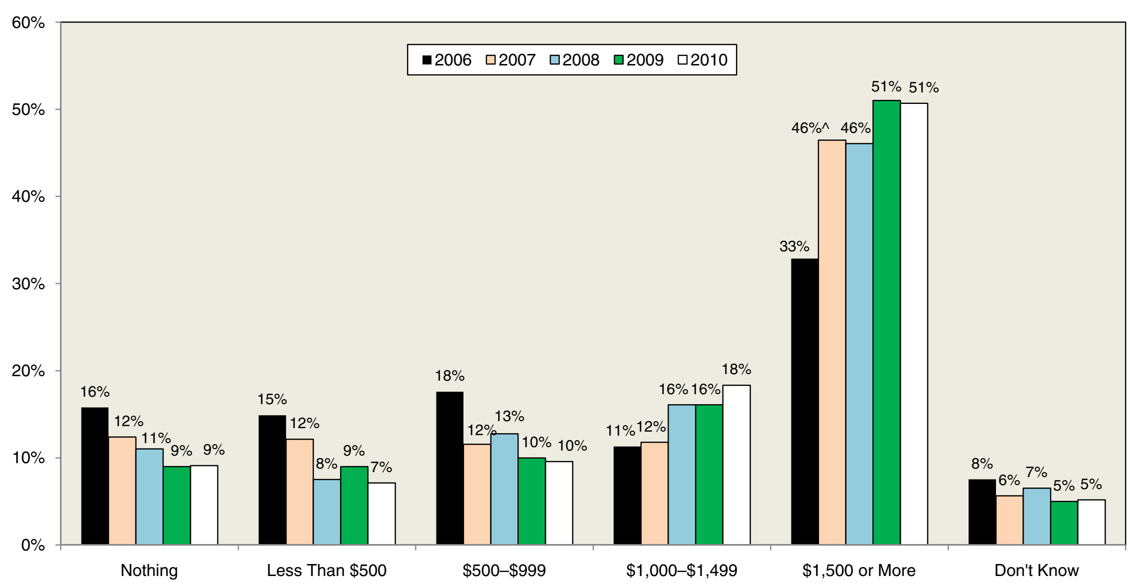
Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at $p \leq 0.05$ or better.

Figure 9
Annual Individual Contributions to the Account, Among Persons With Employee-Only or Family CDHP[1] and No Health Problems, 2006–2010



Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at p ≤ 0.05 or better.

Figure 10
Annual Individual Contributions to the Account, Among Persons With Employee-Only or Family CDHP[1] and Health Problem, 2006–2010



Source: Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, 2006 and 2007; Employee Benefit Research Institute/MGA Consumer Engagement in Health Care Survey, 2008–2010.
[1] CDHP = Consumer-driven health plan with deductible $1,000+ (individual), $2000+ (family), with account.
^ Difference from prior year shown is statistically significant at p ≤ 0.05 or better.

Endnotes

[1] See Paul Fronstin, "Can 'Consumerism' Slow the Rate of Health Benefit Cost Increases?" *EBRI Issue Brief,* no. 247 (Employee Benefit Research Institute, July 2002).

[2] Paul Fronstin, "Health Savings Accounts and Other Account-Based Health Plans," *EBRI Issue Brief,* no. 273 (Employee Benefit Research Institute, September 2004).

[3] See http://www.mercer.com/press-releases/1364345

[4] 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 consumer groups and organized labor (see www.healthcaredisclosure.org/). In 2002, there was interest in tiered provider networks (see Paul Fronstin, "Tiered Networks for Hospital and Physician Health Care Services," *EBRI Issue Brief,* no. 260 (Employee Benefit Research Institute, August 2003). 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 (see Michael E. Chernew, Allison B. Rosen, and A. Mark Fendrick, "Value-Based Insurance Design," *Health Affairs* Web Exclusive (Jan. 10, 2007): w195−w203).

[5] More information about the surveys can be found in Paul Fronstin and Sara Collins, "The 2nd Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006: Early Experience With High-Deductible and Consumer-Driven Health Plans," *EBRI Issue Brief*, no. 300 (Employee Benefit Research Institute, December 2006); Paul Fronstin and Sara R. Collins, "Findings From the 2007 EBRI/Commonwealth Fund Consumerism in Health Care Survey," *EBRI Issue Brief,* no. 315 (Employee Benefit Research Institute, March 2008); Paul Fronstin, "Findings from the 2008 EBRI Consumer Engagement in Health Care Survey," *EBRI Issue Brief,* no. 323 (Employee Benefit Research Institute, November 2008); and Paul Fronstin, "Findings from the 2009 EBRI/MGA Consumer Engagement in Health Care Survey," *EBRI Issue Brief,* no. 337 (Employee Benefit Research Institute, December 2009).

[6] Individuals were defined as having a health problem if they said they were in fair or poor health or had one of eight chronic health conditions (arthritis, asthma, emphysema or lung disease, cancer, depression, diabetes, heart attack or other heart disease, high cholesterol or hypertension, high blood pressure, or stroke).

New Publications and Internet Sites

[Note: To order U.S. Government Accountability Office (GAO) publications, call (202) 512-6000. To order publications from the U.S. Government Printing Office (GPO), call toll-free (866) 512-1800 or (202) 512-1800, http://bookstore.gpo.gov]

Fiduciary Responsibility

Brislin, Joseph A. *Multiemployer Plans: A Guide for New Trustees*. Second Edition. IFEBP members, $29; nonmembers, $39 (quantity discounts are available). International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 68-9953, Milwaukee, WI 53268-9953, (888) 334-3327, option 4; fax: (262) 364-1818, e-mail: bookstore@ifebp.org, www.ifebp.org/books.asp?6733

General Reference

U.S. Census Bureau. *Statistical Abstract of the United States: 2011*. 130th Edition. $43. Order from GPO.

Health Care

Buck Consultants, LLC. *Working Well: A Global Survey of Health Promotion and Workplace Wellness Strategies: Survey Report*. $325. Buck Consultants, A Xerox Company, Attn: Global Survey Resources, 50 Fremont St., 12th Floor, San Francisco, CA 94105, (800) 887-0509, www.bucksurveys.com

Health Forum LLC, an affiliate of the American Hospital Association. *AHA Hospital Statistics™*. 2011 Edition. AHA members, $180; nonmembers, $240. AHA Services, Inc., P.O. Box 933283, Atlanta, GA 31193-3283, (800) 242-2626, fax: (866) 516-5817, www.ahadata.com

Pension Plans/Retirement

U.S. Government Accountability Office. (1) *401(k) Plans: Improved Regulation Could Better Protect Participants from Conflicts of Interest*; (2) *Defined Contribution Plans: Key Information on Target Date Funds as Default Investments Should Be Provided to Plan Sponsors and Participants*. Order from GAO.

Social Security Reform

Gokhale, Jagadeesh. *Social Security: A Fresh Look at Reform Alternatives*. $55 (e-book options available: 30-day ownership for $7; perpetual ownership for $55). University of Chicago Press, Chicago Distribution Center, 11030 South Langley, Chicago, IL, 60628, (800) 621-2736, fax: (800) 621-8476, e-mail: orders@press.uchicago.edu, www.press.uchicago.edu/infoServices.html

Web Documents

Congressional Research Service: *Upcoming Rules Pursuant to the Patient Protection and Affordable Care Act,* http://assets.opencrs.com/rpts/R41586_20110113.pdf

The Segal Company: *Survey of Plans' 2010 Zone Status,* www.segalco.com/publications/surveysandstudies/winter2011zonestatus2010.pdf

Social Security Administration: *Annual Statistical Supplement to the Social Security Bulletin, 2010,* www.ssa.gov/policy/docs/statcomps/supplement/2010/index.html

U.S. Bureau of Labor Statistics: State and Local Government Employee Benefits, March 2010, www.bls.gov/opub/ted/2011/ted_20110309.htm

ebri.org Employee Benefit Research Institute Notes

EBRI Employee Benefit Research Institute Notes (ISSN 1085–4452) is published monthly by the Employee Benefit Research Institute, 1100 13th St. NW, Suite 878, Washington, DC 20005-4051, at $300 per year or is included as part of a membership subscription. Periodicals postage rate paid in Washington, DC, and additional mailing offices. POSTMASTER: Send address changes to: *EBRI Notes*, 1100 13th St. NW, Suite 878, Washington, DC 20005-4051. Copyright 2011 by Employee Benefit Research Institute. All rights reserved, Vol. 32, no.3.

Who we are

The Employee Benefit Research Institute (EBRI) was founded in 1978. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI is the only private, nonprofit, nonpartisan, Washington, DC-based organization committed exclusively to public policy research and education on economic security and employee benefit issues. EBRI's membership includes a cross-section of pension funds; businesses; trade associations; labor unions; health care providers and insurers; government organizations; and service firms.

What we do

EBRI's work advances knowledge and understanding of employee benefits and their importance to the nation's economy among policymakers, the news media, and the public. It does this by conducting and publishing policy research, analysis, and special reports on employee benefits issues; holding educational briefings for EBRI members, congressional and federal agency staff, and the news media; and sponsoring public opinion surveys on employee benefit issues. **EBRI's Education and Research Fund** (EBRI-ERF) performs the charitable, educational, and scientific functions of the Institute. EBRI-ERF is a tax-exempt organization supported by contributions and grants.

Our publications

EBRI Issue Briefs are periodicals providing expert evaluations of employee benefit issues and trends, as well as critical analyses of employee benefit policies and proposals. ***EBRI Notes*** is a monthly periodical providing current information on a variety of employee benefit topics. EBRI's ***Pension Investment Report*** provides detailed financial information on the universe of defined benefit, defined contribution, and 401(k) plans. EBRI ***Fundamentals of Employee Benefit Programs*** offers a straightforward, basic explanation of employee benefit programs in the private and public sectors. The ***EBRI Databook on Employee Benefits*** is a statistical reference work on employee benefit programs and work force-related issues.

Orders/ Subscriptions

Contact EBRI Publications, (202) 659-0670; fax publication orders to (202) 775-6312. Subscriptions to *EBRI Issue Briefs* are included as part of EBRI membership, or as part of a $199 annual subscription to *EBRI Notes* and *EBRI Issue Briefs.* Individual copies are available with prepayment for $25 each (for printed copies). ***Change of Address:*** EBRI, 1100 13th St. NW, Suite 878, Washington, DC, 20005-4051, (202) 659-0670; fax number, (202) 775-6312; e-mail: subscriptions@ebri.org ***Membership Information:*** Inquiries regarding EBRI membership and/or contributions to EBRI-ERF should be directed to EBRI President/ASEC Chairman Dallas Salisbury at the above address, (202) 659-0670; e-mail: salisbury@ebri.org

EBRI Notes is registered in the U.S. Patent and Trademark Office. ISSN: 1085–4452 1085–4452/90 $ .50+.50