

Workers Displaced From Employment, 1997–1999: Implications for Employee Benefits and Income Security

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Issue Brief

- This *Issue Brief* examines displaced workers in the United States. It provides a snapshot of displaced workers between 1997 and 1999, a period of strong economic growth, and compares it with displaced workers between 1993 and 1995. While the data presented in this report are a reminder of trends before the 2001 economic slowdown, they are important to understand because they provide a baseline of data before 2001 and can inform the debate on economic stimulus to better provide sound public policy.
- Using estimates from the February 2000 Displaced Worker Survey supplement to the U.S. Census Bureau's Current Population Survey, it finds that between 1997 and 1999, 7.5 million workers reported losing a job for negative economic reasons. This represents 6 percent of the employed population between 1997 and 1999. In contrast, 9.4 million workers, or 8.2 percent of the employed population, reported losing a job for negative economic reasons between 1993 and 1995.
- Among the 9.4 million displaced workers in 1993–1995, 35 percent attributed the job loss to a plant or company move or closure, 40 percent to insufficient work, and 26 percent to a job shift or abolished position. In comparison, among workers displaced during 1997–1999, 42 percent attributed their job loss to a plant or company move or closure, 33 percent to insufficient work, and 25 percent to a job shift or abolished position.
- Displaced workers have very few options when it comes to continuing health insurance coverage. One option is to continue to participate in the health insurance they already had on their job through so-called COBRA benefits, but which the ex-worker must pay for individually. Congress has been debating an economic stimulus package that would include a provision for subsidizing health insurance for laid-off workers.
- Temporary displacement from employment may or may not have a long-term impact on retirement income security. Given that 71 percent of displaced workers had tenure levels of less than five years, many of those displaced potentially could have lost retirement benefits if they were plan participants. However, displaced workers are younger, on average, than the workers in the labor force and retirement plan participation tends to be low among younger workers. This means that not all displaced workers will be in a position of losing retirement benefits from their current job since they may not have any retirement benefits to begin with. It is also unclear how many workers would have remained with their employer long enough to vest if they were participating in a retirement plan and had not been displaced.

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Introduction

The strength of the U.S. economy between 1991 and 2000 drove unemployment rates to historic lows, which resulted in increases in real wages, improvements in employee benefits, reductions in welfare roles, and government budget surpluses. Unemployment in the United States was 6.8 percent in 1991 and 7.5 percent in 1992 (figure 1). By 2000, unemployment had fallen to 4 percent.

After 10 years of strong growth, the economy slowed down significantly during 2001 and by most economic measurements entered a recession in March 2001. After reaching a low of 3.9 percent in September and October 2000, the unemployment rate started to gradually increase (figure 2) and accelerate, reaching 5.7 percent in November 2001. While 5.7 percent is not high by historical standards, the unemployment rate is expected to continue increasing into 2002. The large increase over the year—from 3.9 percent in October

2000—represents an additional 3 million unemployed workers, for a total of 8.1 million Americans who were unemployed in November 2001.¹

This *Issue Brief* examines displaced workers in the United States. It provides a snapshot of displaced workers between 1997 and 1999, a period of strong economic growth, and compares it with displaced workers between 1993 and 1995. While the data presented in this report are a reminder of trends before the 2001 economic slowdown, they are important to understand because they provide a baseline of data before 2001 and can inform the debates on economic stimulus to better provide sound public policy.

The next section of the *Issue Brief* discusses the implications of job displacement for employee benefits and income security. The following section discusses definitional issues related to estimating the number of displaced workers and provides overall time series estimates. The section after that presents data on the characteristics of displaced workers. Following that, data on re-employment experiences, unemployment insurance reciprocity, and health insurance coverage are presented. The final section summarizes prior research on displaced workers.

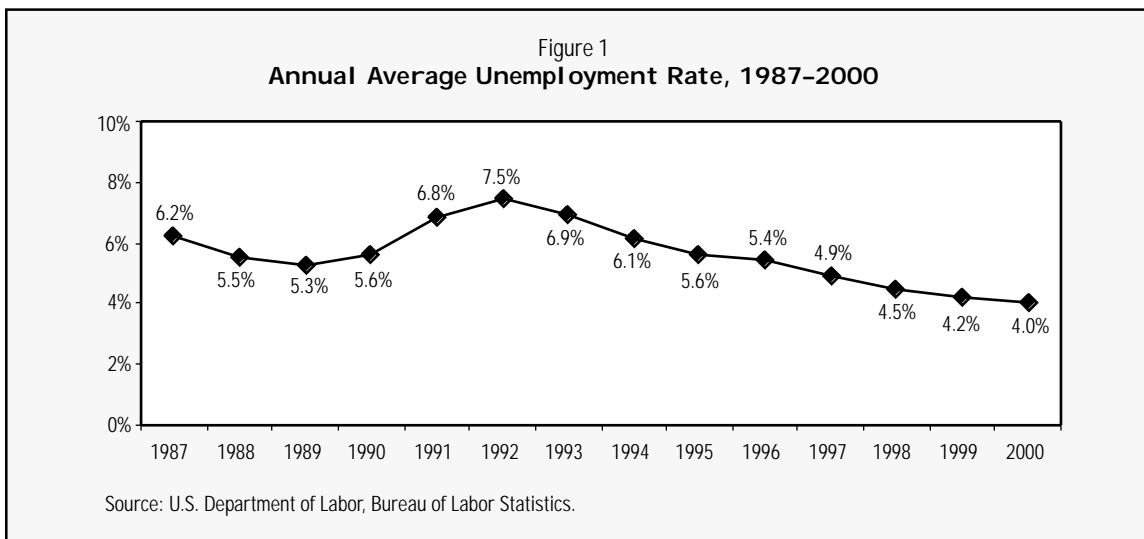
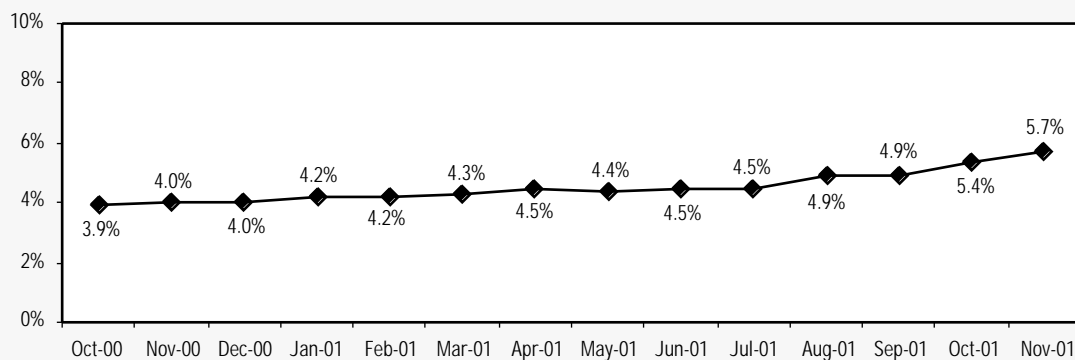


Figure 2
Monthly Unemployment Rate, October 2000–November 2001



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Implications for Benefits

As of November 2001, 8.2 million Americans were unemployed, up from 5.7 million in November 2000.² Undoubtedly, with the economic recession then under way, many of the 2.5 million additional unemployed were displaced from jobs. However, the number of displaced workers may be even higher, as the additional 2.5 million unemployed represent a *net* number of unemployed. The *actual* number of workers experiencing a job displacement may be even higher, as displaced workers are often re-employed within just a few weeks. As shown from the earlier periods examined later in this report, workers under age 35 accounted for between 37 percent and 43 percent of all displaced workers. In addition, roughly 30 percent of displaced workers were on their job for less than one year, while 71 percent had been with their employer for less than five years. These figures are relevant when considering the implications of displacement for retirement income and health care security.

Health Care Benefits

The link between employment and health insurance is strong. Employment-based health benefits are the most common source of health insurance among workers and their families in the United States, providing coverage to more than two-thirds of the population under age 65 in 2000 (Fronstin, 2001b). Health insurance is also the most valued employee benefit. Sixty percent of workers report that health insurance is the most important

benefit, followed by 23 percent reporting a retirement savings plan (Christensen, 2001). Loss of a job often means loss of health care benefits, which is likely to be an immediate concern for a displaced worker (especially an older one).

Displaced workers have very few options when it comes to continuing health insurance coverage. One option is to continue to participate in the health insurance they already had on their job through so-called COBRA benefits, but which the ex-worker must pay for individually. Under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), displaced workers are assured access to health insurance during periods of unemployment, although employers with fewer than 20 employees are excluded from these provisions, as are plans offered by churches, the District of Columbia, or any territory, possession, or agency of the United States. COBRA requires employers with health insurance plans to offer continued access to group health insurance to qualified beneficiaries if they lose coverage as a result of a qualifying event. COBRA requires continued access for 18 months (or 29 months if the qualified beneficiary is disabled) for covered employees, and dependents. COBRA beneficiaries can be required to pay up to 102 percent of the premium. While this may be less than the employer's cost for health insurance, it is nevertheless more than the employee was used to paying for health benefits (Fronstin, 1998). As a result, while displaced workers have access to coverage through their former employer, affordability of that coverage is often a huge concern as job displacement is usually associated with a substantial decline in income, which may explain the historically low take-up rate for COBRA coverage.³

As of this writing, Congress was debating an economic stimulus package, which included provisions for subsidizing health insurance for laid-off workers.

Generally speaking, Democrats would like to provide direct federal subsidies for COBRA coverage, while Republicans favor either tax credits or funding for the states to administer their own programs. Both ideas have their advantages and disadvantages.

Direct subsidies for COBRA coverage would allow displaced workers and their families to remain in their health insurance plan, so changing health care providers would not be an issue. COBRA subsidies would also help address affordability of health insurance, but even a 75 percent subsidy (which has been proposed) may mean that affordability is still an issue for many displaced workers. A recent study found that family coverage costs an average of \$588 per month (Gabel et al., 2001). After factoring in the 2 percent administrative fee for COBRA coverage, a family would still pay an average of \$150 per month (\$1,800 per year) for COBRA coverage, even after a 75 percent federal subsidy. While the subsidy is substantial, many families might not be able to afford it because, as mentioned above, job displacement is usually associated with a substantial reduction in income.⁴ Another issue regarding COBRA coverage, especially during an economic downturn, is that employers do not have to offer COBRA coverage if they no longer offer health benefits. This may occur if the employer stopped offering health benefits to reduce expenses or if the employer went out of business.

Tax credits would provide displaced workers with more flexibility regarding their health insurance choices. Under COBRA, beneficiaries are offered the same options as active workers. This may mean a choice between a health maintenance organization (HMO) and a preferred provider organization (PPO), both with comprehensive prescription drug benefits, or no choice at all. Displaced workers would be able to use the tax credit to purchase health insurance directly from an insurer. Displaced workers could then tailor health insurance to suit their needs. For example, they might choose health insurance with a higher deductible than they could otherwise get under COBRA, or they might choose a plan that does not cover prescription drugs.⁵ A disadvantage

of tax credits is that insurers may exclude pre-existing medical conditions from health insurance coverage. Displaced workers are guaranteed coverage for pre-existing conditions in the individual market only after they have exhausted COBRA coverage (assuming it is available), and only if they choose one of a handful of HIPAA policies (under the Health Insurance Portability and Accountability Act) available in their state. Even with a tax credit, affordability would continue to be an issue for some displaced workers if they do not have a job and do not have income coming into the family.

A number of studies have tried to estimate the impact of various tax credit proposals on the number of uninsured Americans in the United States. Most recently, Pauly and Herring (2001) provide a wide range of estimates based on numerous assumptions on tax credit design and behavioral response. As they note,

“. . . predicting the effect of credits that are large enough to matter is fraught with uncertainty, both because there are many possible designs and because the behavioral responses are properly subject to a wide range of conjecture.”

This may explain why their estimates of the impact of tax credits on reducing the number of uninsured Americans range from a low of 2 percent to a high of 97 percent. However, highlighting the wide range of estimates is not meant to discount their study, as it provides a very useful tool for evaluating various tax credit proposals using different assumptions and also for discussing the issues that arise in estimating the effect of a tax credit. As an example of complexity in just one of their estimates, when Pauly and Herring assume a 50 percent tax credit and also assume that uninsured persons would rather have health insurance than receive charity care or incur bad debt, they estimate that 58 percent of the uninsured would purchase health insurance—even though this overall estimate actually varies from 30 percent to 85 percent, depending upon what is assumed about utilization of health care services, even after controlling for increased utilization due to moral hazard.⁶

Displaced workers are younger, on average, than the workers in the labor force and retirement plan participation tends to be low among younger workers. This means that not all displaced workers will be in a position of losing retirement benefits from their current job since they may not have any retirement benefits to begin with.

Retirement Income Security

Temporary displacement from employment may or may not have a long-term impact on retirement income security. Under current law, workers must become vested in an employer's retirement plan no later than five years after they become plan participants.⁷ Given that 71 percent of displaced workers had tenure levels of less than five years, many of those displaced potentially could have lost retirement benefits if they were plan participants. However, displaced workers are younger, on average, than the workers in the labor force and retirement plan participation tends to be low among younger workers. This means that not all displaced workers will be in a position of losing retirement benefits from their current job since they may not have any retirement benefits to begin with. It is also unclear how many workers would have remained with their employer long enough to vest if they were participating in a retirement plan and had not been displaced. The advantages of compounding interest make it highly desirable to begin saving and accruing retirement benefits at the earliest age possible, but because displaced workers may have 20 to 30 years to accumulate assets and benefits, the impact of job displacement on retirement income security is difficult to predict.

Starting in 2002, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provides older workers with the ability to make up for contributions to retirement savings plans not made during periods of job displacement. Workers ages 50 and older can make "catch-up" contributions by setting aside an extra \$1,000 per year in their defined contribution retirement savings plan if permitted by their employers. The limit on catch-up contributions will increase in \$1,000 increments, so that by 2006 workers ages 50 and older will be able to set aside an additional \$5,000 per

year toward retirement income. Employers that permit catch-up contributions may or may not match part or all of the employee contribution.

Upon job termination, workers often have access to assets accumulated in an employment-based retirement plan. Defined contribution retirement savings plans, such as 401(k) plans, allow workers to have access to their vested account balance on job

change. Traditional defined benefit pension plans increasingly offer lump-sum distribution options upon job termination (VanDerhei and Copeland, 2001).⁸ Departing workers can either preserve these funds for retirement by keeping them in a tax-qualified savings vehicle or remove them from the retirement system to use for nontax-qualified purposes. They can preserve the funds by leaving them in the former employer's plan, if allowed by the former employer, or by "rolling" the account balance over into an individual retirement account (IRA) or a new employer's plan, if allowed by the new employer. If they do not preserve the account balance, they receive it as current income (usually after paying a penalty for early withdrawal), to save on a nontax-qualified basis and/or to spend it.

The federal tax code seeks to encourage the preservation of assets accumulated for retirement income. Any amounts not preserved in a tax-qualified vehicle are subject to regular income taxes as well as a 10 percent penalty tax.⁹ Furthermore, since 1993, all employers have been required to offer departing plan participants the option of directly transferring their vested account balance to an IRA or a new employer's plan (if the new employer's plan accepts rollovers). If workers do not utilize the direct transfer option and instead choose to receive the distribution, 20 percent of the taxable portion is withheld toward taxes that may be owed on the distribution. The participant still has

60 days from receipt to roll over the entire amount of the account and avoid any current taxes. However, workers will still need to roll over the 20 percent that was withheld for taxes with money accumulated in their personal savings if it was not a trustee-to-trustee transfer.

Displaced workers may be especially tempted not to roll over their retirement money in order to keep it available during a period of extended unemployment, although they may not realize that if they roll the money over to an IRA they have access to it at any time.¹⁰ However, this is a decision that requires a full understanding of the tradeoffs involved in terms of lost retirement income in the future. Research indicates that, while the incidence of “cashouts” from retirement plans has not increased along with their increased availability as an option for workers departing an employer (Scott and Shoven, 1996), the level of retirement benefit preservation is low among most segments of the working population. In a study of Hewitt 401(k) data, 57 percent of participants who removed their assets from a previous employer’s plan cashed out their assets, 6 percent rolled them to another qualified plan, and 37 percent rolled them to an IRA (McCarthy and McWhirter, 2000). Participants who rolled over their defined contribution plan assets typically rolled over larger amounts: The average account balance for those who cashed out their account balances was \$8,445, compared with \$68,107 for those who rolled the assets over to an IRA. The authors note that this finding suggests that perhaps participants with smaller account balances do not appreciate the considerable retirement income that can be amassed over time by preserving even small amounts of defined contribution plan assets.

One advantage of defined contribution retirement plans is that the benefits are fully portable when the account holder leaves an employer. It can also be argued that it is an advantage that displaced workers have access to the money that has accumulated in their plan, should they so desire. However, a decision to tap these funds should not be made lightly, especially

considering the tax consequences discussed above and the sacrifice of retirement income later in life. For these reasons, some would argue that such availability is a disadvantage.

Job Displacement

The estimated number of displaced workers often varies because of a lack of consensus on the definition of a “displaced” worker (Hamermesh, 1989). However, three characteristics are usually associated with worker displacement (Fallick, 1996):

- Structural changes in the economy, such as changes in technology, international trade, demand for goods and services, and public policy.
- Difficulty gaining employment in the same industry, occupation, or geographic location among the unemployed.
- Strong worker attachment to a particular industry, occupation, or geographic region because of job-specific human capital investments.

While some researchers take a narrow approach toward estimating the number of displaced workers, others take a broader approach. For example, recent estimates of displaced workers by the U.S. Department of Labor’s Bureau of Labor Statistics count a worker as being displaced if he or she lost or left a job for one of the following reasons (Helwig, 2001):

- Plant or company closed or moved.
- Position or shift was abolished.
- Insufficient work.

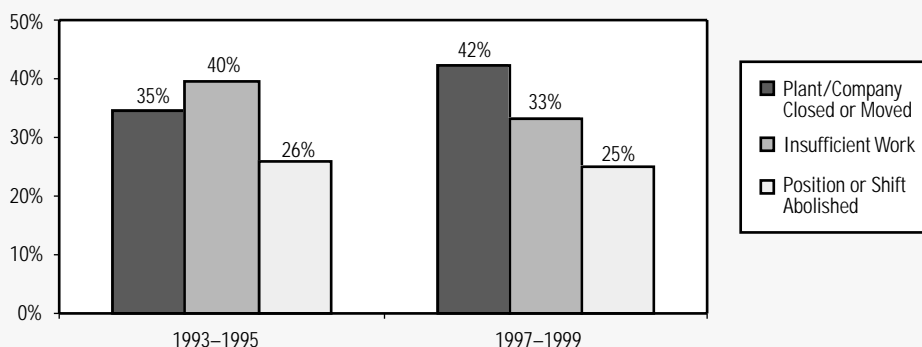
Helwig (2001), using data from the February 2000 Displaced Worker Survey supplement to the U.S. Census Bureau’s Current Population Survey (CPS), limited his reference period to 1997–1998, arguing that displacements occurring in 1999, the year before the data were

Figure 3
Workers Displaced During the Periods 1993–1995 and 1997–1999

| Period | Average Number of Employed Individuals (thousands) | Number of Displaced Workers (thousands) | Percentage Who Were Displaced |
|-----------|---|--|-------------------------------|
| 1993–1995 | 115,860 | 9,448 | 8.2% |
| 1997–1999 | 124,542 | 7,521 | 6.0 |

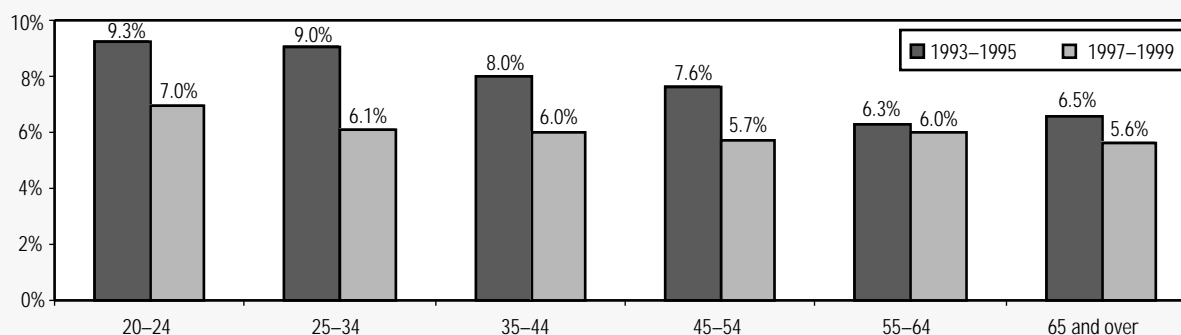
Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

Figure 4
Reasons for Worker Displacement, 1993–1995 and 1997–1999



Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

Figure 5
Likelihood of Experiencing a Job Displacement, by Age



Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

collected, may turn out to be temporary rather than permanent. In addition, Helwig excluded workers with less than two years of job experience before their job loss, arguing that inclusion of workers displaced after less than two years of employment may represent “bad matches” between employers and employees rather than job loss due to labor market conditions.

This report takes an even broader approach toward estimating the number of displaced workers. Like

Helwig, it defines as a displaced worker anyone reporting that his or her plant or company closed or moved, that the position or shift was abolished, or that there was insufficient work. However, unlike Helwig and others, it uses a three-year period to examine displacement and allows persons with job tenure of less than two years to be counted as displaced. Using estimates from the February 2000 Displaced Worker Survey supplement to the CPS, it finds that between 1997 and 1999,

Figure 6
**Distribution of Displaced Workers, 1993–1995
 and 1997–1999 and Distribution of Labor Force,
 1993 and 1997**

| | Displaced Workers | | All Workers | |
|--|-------------------|-----------|-------------|---------|
| | 1993–1995 | 1997–1999 | 1993 | 1997 |
| | (thousands) | | | |
| Total | 9,448 | 7,521 | 105,210 | 114,810 |
| | (percentage) | | | |
| Age | 100% | 100% | 100% | 100% |
| 20–24 | 12 | 12 | 8 | 8 |
| 25–34 | 31 | 25 | 26 | 24 |
| 35–44 | 28 | 29 | 29 | 28 |
| 45–54 | 19 | 21 | 21 | 23 |
| 55–64 | 8 | 10 | 12 | 12 |
| 65 and over | 3 | 3 | 4 | 4 |
| Sex | 100 | 100 | 100 | 100 |
| Male | 57 | 54 | 52 | 52 |
| Female | 43 | 47 | 48 | 48 |
| Education | 100 | 100 | 100 | 100 |
| Less than high school degree | 12 | 12 | 12 | 12 |
| High school degree | 35 | 33 | 34 | 33 |
| Some college | 32 | 32 | 28 | 29 |
| College degree | 21 | 23 | 25 | 27 |
| Annual Earnings ^a (2000 \$) | 100 | 100 | 100 | 100 |
| Less than \$20,000 | 48 | 39 | 41 | 38 |
| \$20,000–\$29,999 | 21 | 23 | 21 | 20 |
| \$30,000–\$39,999 | 13 | 14 | 15 | 14 |
| \$40,000–\$49,999 | 8 | 8 | 10 | 10 |
| \$50,000–\$74,999 | 8 | 11 | 9 | 12 |
| \$75,000–\$99,999 | 2 | 4 | 3 | 3 |
| \$100,000 or more | 2 | 2 | 1 | 2 |
| Union Status | 100 | 100 | 100 | 100 |
| Union covered | 13 | 9 | 18 | 16 |
| Not union covered | 86 | 90 | 82 | 84 |
| Unknown | 1 | 1 | 0 | 0 |
| Tenure | 100 | 100 | 100 | 100 |
| Less than 1 year | 30 | 28 | n/a | n/a |
| 1–4 years | 41 | 43 | n/a | n/a |
| 5–9 years | 15 | 13 | n/a | n/a |
| 10–14 years | 6 | 7 | n/a | n/a |
| 15–19 years | 4 | 4 | n/a | n/a |
| 20 or more years | 5 | 5 | n/a | n/a |
| Industry | 100 | 100 | 100 | 100 |
| Mining and construction | 13 | 11 | 6 | 6 |
| Manufacturing | 31 | 30 | 26 | 25 |
| Wholesale and retail trade | 37 | 38 | 33 | 34 |
| Service | 17 | 18 | 31 | 30 |
| Public administration | 2 | 2 | 5 | 5 |
| Occupation | 100 | 100 | 100 | 100 |
| Managerial and professional speciality | 22 | 25 | 28 | 30 |
| Technical, sales, and administrative support | 30 | 30 | 32 | 31 |
| Service | 26 | 24 | 25 | 25 |
| Operators, fabricators, and laborers | 23 | 20 | 15 | 15 |

Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

^aExcludes workers for whom earnings were not reported.

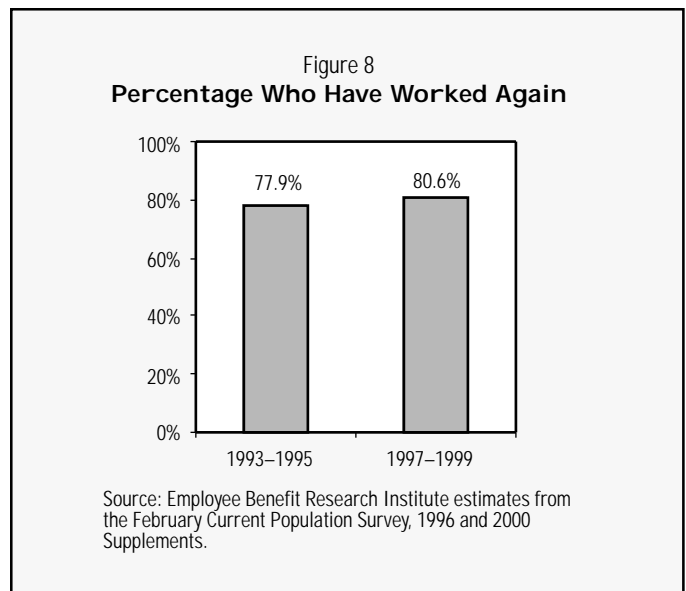
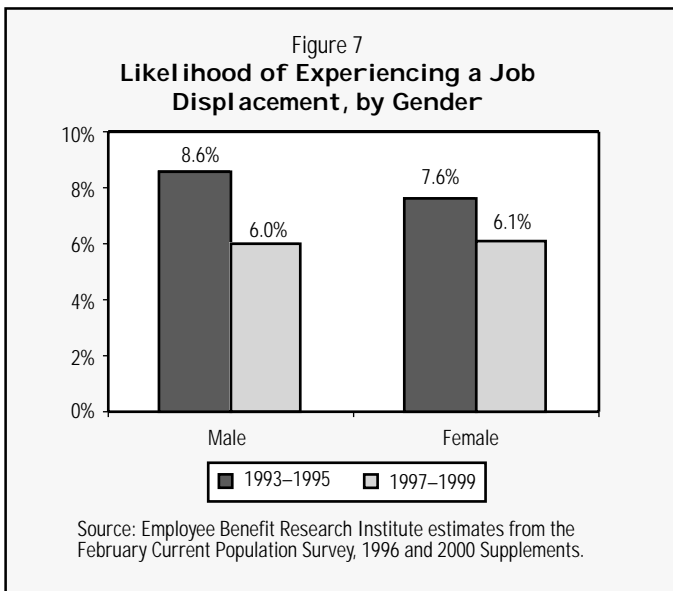
7.5 million workers reported losing a job for negative economic reasons (figure 3). This represents 6 percent of the employed population between 1997 and 1999. In contrast, 9.4 million workers, or 8.2 percent of the employed population, reported losing a job for negative economic reasons between 1993 and 1995.

Among the 9.4 million displaced workers in 1993–1995, 35 percent attributed the job loss to a plant or company move or closure, 40 percent to insufficient work, and 26 percent to a job shift or abolished position (figure 4). In comparison, among workers displaced during 1997–1999, 42 percent attributed their job loss to a plant or company move or closure, 33 percent to insufficient work, and 25 percent to a job shift or abolished position.

Who Was Displaced?

In general, younger workers were more likely than older workers to experience a job displacement. Among those ages 20–24 and 25–34 in 1996, 9.3 percent and 9 percent, respectively, reported a job displacement during the three previous years, compared with 6.3 percent and 6.5 percent for those ages 55–64 and 65 and older, respectively (figure 5). The same pattern can be seen for workers displaced during 1997–1999, although it is less pronounced. However, younger workers were less likely to be displaced during 1997–1999 than during 1993–1995, while older workers were about equally likely to be displaced during these two time periods.

Looking at the distribution of displaced workers by age over time can also show these differences. As shown in figure 6, the distribution of displaced workers shifted from younger toward older workers between the two time periods studied. For example, 31 percent of displaced workers were ages 25–34 during 1993–1995, compared with 25 percent during 1997–1999.



Male workers were more likely than female workers to have experienced a job displacement during 1993-1995; however, male and female workers were somewhat more likely to experience a job displacement during 1997-1999 (figure 7). Overall, both male and female workers showed a decline in the likelihood that they had experienced a job displacement between 1993-1995 and 1997-1999. Looking at the distribution of both displaced workers and the labor force over time shows that women were more likely to be displaced from jobs during 1997-1999 than during 1993-1995 (figure 6).

Figure 6 also includes comparisons of the distribution of displaced workers with the distribution of all workers for selected demographics and job characteristics. The data in the figure show that lower-income workers were more likely than higher-income workers to be displaced; nonunion workers were more likely than union workers to be displaced; public administration and service-sector workers were less likely than other workers to be displaced; and workers in managerial or professional specialty occupations were less likely than workers in other occupations to be displaced.

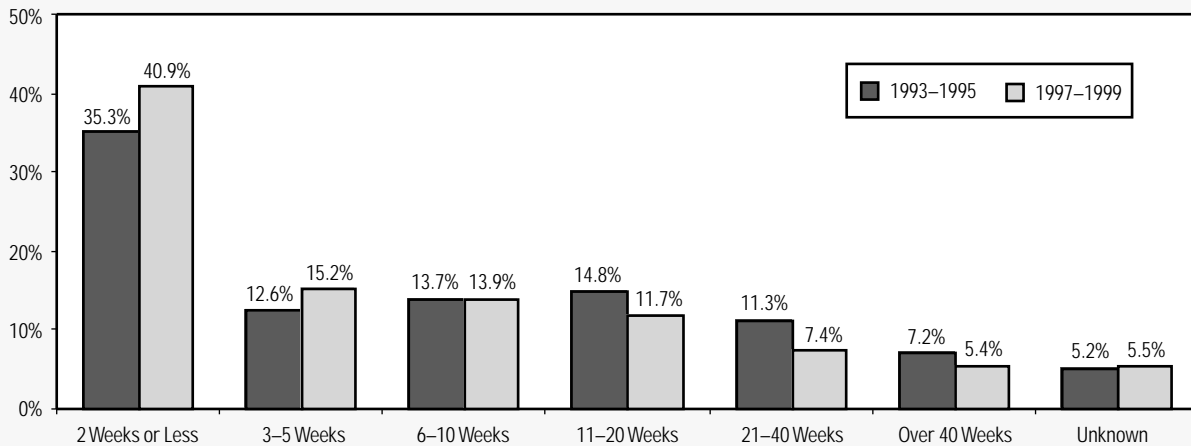
Returning to the Work Force

Roughly 80 percent of workers displaced during both 1993-1995 and 1997-1999 have been re-employed (figure 8). The likelihood of being re-employed increased slightly between the 1993-1995 period and the

1997-1999 period, from 77.9 percent to 80.6 percent. More important, when examining the length of time until becoming re-employed, it can be seen that the length of spell of unemployment declined between 1993-1995 and 1997-1999 for displaced workers. Overall, roughly half of the displaced workers were re-employed within five weeks. For workers displaced during the 1993-1995 period, 35.3 percent were re-employed within two weeks, and 12.6 percent were re-employed within three to five weeks (figure 9). In contrast, for workers displaced during the 1997-1999 period, 40.9 percent were re-employed within two weeks, and 15.2 percent were re-employed within three to five weeks.

Figure 10 shows wage changes for workers who were displaced from a job during 1993-1995 and 1997-1999, and who had reported earnings from their current job as well as from the job from which they were displaced. For workers displaced during 1993-1995, 28.7 percent reported an earnings ratio (1996 earnings as a percentage of annual displaced earnings) of 76 percent to 100 percent, and 20.5 percent reported an earnings ratio of 101 percent to 125 percent. Hence, a total of 49.2 percent reported 1996 earnings that were plus or minus 25 percent of the earnings from their lost job. In contrast, for workers displaced during 1997-1999, 53 percent reported earnings that were plus or minus 25 percent of the earnings from their lost job; 29.5 percent reporting an earnings ratio of 76 percent to 100 percent, and 23.5 percent reporting an earnings ratio of 101 percent to 125 percent. There were fewer workers earning 75 percent or less of their wages from their lost job in 2000 than in 1996. The remainder of this section discusses the re-employment and wage change experience of workers displaced from jobs during 1997-1999.

Figure 9
Re-employment Experience of Displaced Workers, by Spell of Unemployment



Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

Re-employment

As noted above, 80 percent of workers displaced from a job during 1997-1999 were re-employed by 2000, and 20 percent had not been re-employed by the time they were surveyed in February 2000. Of those workers who were re-employed, 40.9 percent were re-employed within two weeks and an additional 15.2 percent were re-employed within three to five weeks. Also, 13.9 percent of displaced workers were re-employed within six to 10 weeks, 11.7 percent within 11 to 20 weeks, 7.4 percent within 21 to 40 weeks, and 5.4 percent after 40 weeks (figure 11).

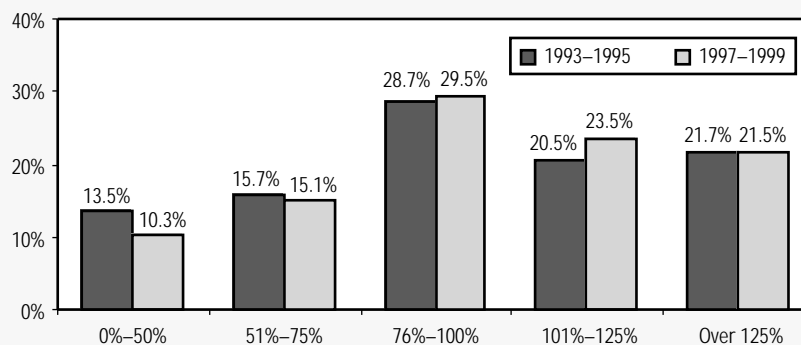
The likelihood of becoming re-employed dropped substantially for displaced workers ages 55 and older. The percentage of displaced workers who have worked

again was in the range of 80 percent to almost 90 percent for workers ages 20-54 and then dropped to 66.3 percent for those ages 55-64 and to 41.8 percent for those ages 65 and older. This may suggest that older displaced workers either retired or gave up searching for a new job sooner than younger displaced workers. The time until re-employment was also shorter for younger displaced workers than for older ones. More than 60 percent of displaced workers ages 20-34 were re-employed within five weeks, compared with 47 percent of workers ages 45-54, and 53 percent of workers ages 55-64.

Male displaced workers were more likely than female displaced workers to have been re-employed by 2000. In addition, among those re-employed, males were more likely than females to incur a spell of unemployment of 10 weeks or less.

Re-employment rates were also higher for those

Figure 10
Wage Changes of Re-employed Displaced Workers



Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

Figure 11
Re-employment Experience of Workers Displaced During the Period 1997-1999

| | Number of Displaced Workers | Percentage Who Have Worked Again | Spell of Unemployment | | | | | | Unknown |
|--|-----------------------------|----------------------------------|-----------------------|-----------|------------|-------------|-------------|---------------|---------|
| | | | 2 weeks or less | 3-5 weeks | 6-10 weeks | 11-20 weeks | 21-40 weeks | Over 40 weeks | |
| (thousands) | | | | | | | | | |
| Total | 7,521 | 80.6% | 40.9% | 15.2% | 13.9% | 11.7% | 7.4% | 5.4% | 5.5% |
| Age (in 2000) | | | | | | | | | |
| 20-24 | 878 | 82.5 | 44.5 | 19.9 | 13.3 | 9.9 | a | a | a |
| 25-34 | 1,909 | 87.5 | 45.0 | 17.2 | 12.8 | 10.0 | 5.8 | 4.4 | 4.6 |
| 35-44 | 2,177 | 81.2 | 40.7 | 14.7 | 14.3 | 11.9 | 7.2 | 6.1 | 5.1 |
| 45-54 | 1,581 | 82.5 | 35.9 | 11.6 | 15.2 | 14.2 | 11.0 | 6.0 | 6.2 |
| 55-64 | 764 | 66.3 | 37.6 | 14.9 | 14.1 | 11.4 | 10.2 | a | a |
| 65 and over | 213 | 41.8 | a | a | a | a | a | a | a |
| Sex | | | | | | | | | |
| Male | 4,024 | 83.5 | 43.4 | 15.5 | 14.0 | 10.5 | 6.7 | 4.5 | 5.4 |
| Female | 3,497 | 77.3 | 37.7 | 14.9 | 13.8 | 13.2 | 8.3 | 6.5 | 5.6 |
| Education | | | | | | | | | |
| Less than high school degree | 902 | 68.9 | 42.8 | 15.7 | a | 12.2 | a | a | 10.4 |
| High school degree | 2,504 | 79.3 | 38.5 | 14.9 | 14.3 | 12.4 | 7.2 | 6 | 6.6 |
| Some college | 2,380 | 82.2 | 43.2 | 15.7 | 13.3 | 10.0 | 6.5 | 6.4 | 4.9 |
| College degree | 1,735 | 86.5 | 40.2 | 14.9 | 16.8 | 12.6 | 9.6 | 3.1 | 2.8 |
| Industry | | | | | | | | | |
| Mining and construction | 818 | 82.3 | 46.3 | 15.2 | 12.0 | 10.7 | a | a | a |
| Manufacturing | 2,263 | 79.7 | 37.9 | 14.6 | 13.4 | 12.0 | 8.2 | 7.9 | 6.0 |
| Wholesale and retail trade | 2,836 | 80.1 | 42.8 | 15.9 | 13.4 | 11.4 | 6.6 | 4.4 | 5.4 |
| Personal services | 1,393 | 83.0 | 38.1 | 16.5 | 17.0 | 13.7 | 7.5 | a | a |
| Public administration | 119 | 78.2 | a | a | a | a | a | a | a |
| Unknown | a | a | a | a | a | a | a | a | a |
| Occupation | | | | | | | | | |
| Managerial and professional specialty | 1,892 | 85.0 | 41.3 | 14.8 | 15.8 | 13.7 | 7.6 | 3.6 | 3.1 |
| Technical, sales, and administrative support | 2,268 | 80.6 | 40.5 | 15.1 | 12.5 | 11.0 | 8.9 | 6.5 | 5.5 |
| Service | 1,828 | 79.6 | 44.9 | 16.0 | 13.9 | 10.6 | 5.3 | 4.0 | 5.3 |
| Operators, fabricators, and laborers | 1,422 | 76.4 | 37.0 | 14.9 | 13.3 | 12.1 | 7.7 | 8.4 | 6.5 |
| Unknown | 111 | a | a | a | a | a | a | a | a |
| Union Status | | | | | | | | | |
| Union covered | 680 | 78.9 | 32.6 | 12.3 | 14.0 | 13.6 | 12.4 | a | a |
| Not union covered | 6,765 | 80.9 | 41.7 | 15.6 | 14.0 | 11.6 | 6.9 | 5.1 | 5.0 |
| Unknown | 76 | a | a | a | a | a | a | a | a |
| Tenure | | | | | | | | | |
| Less than 1 year | 2,097 | 80.0 | 38.7 | 19.6 | 12.0 | 12.3 | 4.1 | 3.7 | 9.7 |
| 1-4 years | 3,241 | 84.8 | 43.0 | 14.5 | 14.7 | 11.8 | 7.4 | 4.8 | 3.8 |
| 5-9 years | 969 | 78.8 | 43.0 | 14.2 | 15.4 | 9.4 | 8.9 | 6.4 | 2.6 |
| 10-14 years | 519 | 75.1 | 37.4 | 11.5 | 11.9 | 15.3 | 12.5 | 7.2 | 4.2 |
| 15-19 years | 312 | 77.5 | 38.5 | 11.3 | 16.1 | 8.9 | 10.4 | 8.7 | 6.1 |
| 20 or more years | 382 | 63.7 | 33.6 | a | a | a | a | a | a |
| Annual Earnings (2000 \$) | | | | | | | | | |
| Less than \$20,000 | 2,407 | 76.1 | 44.3 | 15.7 | 12.1 | 11.1 | 7.0 | 6.6 | 3.3 |
| \$20,000-\$29,999 | 1,408 | 85.8 | 42.5 | 15.0 | 15.4 | 12.2 | 6.5 | 6.6 | a |
| \$30,000-\$39,999 | 900 | 83.6 | 40.2 | 16.7 | 13.1 | 14.9 | 9.7 | a | a |
| \$40,000-\$49,999 | 484 | 90.5 | 39.1 | a | 18.4 | a | a | a | a |
| \$50,000-\$74,999 | 679 | 82.1 | 43.4 | 13.4 | 15.5 | 14.1 | a | a | a |
| \$75,000-\$99,999 | 222 | 82.0 | 41.8 | a | a | a | a | a | a |
| \$100,000 or more | 149 | 87.6 | a | a | a | a | a | a | a |
| Unknown | 1,274 | 75.8 | 32.6 | 15.0 | 12.3 | 8.4 | a | a | 22.4 |

Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 2000 Supplement.
 a Fewer than 75,000 weighted respondents in this category.

In general, the older the individual, the more likely he or she was to have experienced an earnings decrease.

workers with more education. Just under 69 percent of displaced workers with less than a high school education were re-employed by 2000. This compares with 79.3 percent re-employed among workers with a high school degree, and 86.5 percent re-employed among workers with a college degree. The length of unemployment did not vary much by education level.

Re-employment rates ranged from 78.2 percent among workers displaced from public administration industries to 83 percent among those displaced from service industries. Workers displaced from manufacturing and service sector jobs were less likely than other workers to become re-employed within five weeks. There also was variation in re-employment rates across occupations, with rates ranging from 76.4 percent among operators, fabricators, and laborers, to 85 percent among those in managerial/professional occupations. With the exception of operators, fabricators, and laborers, between 70 percent and 80 percent of workers were re-employed within 10 weeks of job displacement.

Union workers and nonunion workers were about equally likely to be re-employed after a job displacement. Nearly 79 percent of union workers were re-employed, while 80.9 percent of nonunion workers were re-employed. Among those workers re-employed, nonunion workers returned to work sooner than union workers. Nearly 33 percent of union workers were re-employed within two weeks, compared with nearly 42 percent of nonunion workers. Similarly, 12.3 percent of union workers were re-employed within three to five weeks, compared with 15.6 percent among nonunion workers.

Re-employment rates steadily decreased with job tenure. Nearly 85 percent of workers with one to four years of tenure who were displaced during 1997–1999 worked again by February 2000, compared with 63.7 percent of workers with 20 or more years of tenure. Since tenure is correlated with age, this may indicate that highly tenured workers either decided to retire after a job displacement or found it more difficult than less tenured workers to find a new job. The likelihood of

experiencing a relatively shorter unemployment spell generally decreased with tenure levels at the job from which they were displaced.

Wage Changes

Figure 12 shows wage changes for 4.6 million individuals who were displaced from a job during 1997–1999, were re-employed by 2000, and reported earnings from their 2000 job as well as from the job from which they were displaced. Nearly 30 percent reported 2000 earnings that were 76 percent to 100 percent of the earnings from their displaced job, while 23.5 percent reported earnings of 101 percent to 125 percent. In general, the older the individual, the more likely he or she was to have experienced an earnings decrease. Among those ages 20–24 in 2000, 47 percent¹¹ experienced a decrease in real annual earnings, compared with 60.6 percent among those ages 45–54. It is difficult to say how wages changed for various other subgroups in figure 12, as there were often too few persons interviewed in each group to provide meaningful statistics.

UI Reciprocity

Nearly 37 percent of workers displaced during 1997–1999 received unemployment insurance (UI) benefits, down from 44 percent of workers displaced during 1993–1995 (figure 13). Of those workers displaced during 1997–1999 and receiving UI benefits, 37.7 percent exhausted their benefits, down from 41.7 percent exhausting their benefits among workers displaced during 1993–1995.

In general, older workers were more likely than younger workers to receive UI benefits. Among displaced workers ages 20–24 in 2000, 14.7 percent received UI benefits, compared with 41.6 percent of those ages 35–44

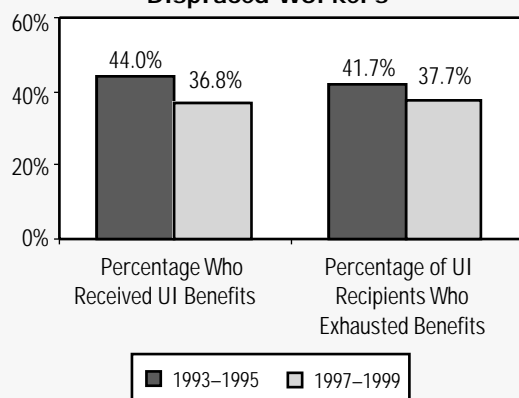
Figure 12
Wage Changes of Re-employed Workers Displaced During the Period 1997–1999 as of 2000

| | Displaced Workers Employed in 2000 (thousands) | Current Earnings as a Percentage of Lost Earnings | | | | |
|--|---|---|---------|----------|-----------|-----------|
| | | 0%–50% | 51%–75% | 76%–100% | 101%–125% | Over 125% |
| Total | 4,613 | 10.3% | 15.1% | 29.5% | 23.5% | 21.5% |
| Age (in 2000) | | | | | | |
| 20–24 | 535 | a | 14.9 | 22.2 | 22.1 | 30.9 |
| 25–34 | 1,313 | 8.3 | 14.3 | 28.6 | 22.3 | 26.5 |
| 35–44 | 1,337 | 9.0 | 13.8 | 30.7 | 26.8 | 19.6 |
| 45–54 | 1,011 | 10.0 | 18.3 | 32.3 | 24.1 | 15.2 |
| 55–64 | 364 | 21.5 | a | 30.9 | a | a |
| 65 and over | 53 | a | a | a | a | a |
| Sex | | | | | | |
| Male | 2,538 | 9.2 | 16.8 | 29.4 | 23.4 | 21.2 |
| Female | 2,075 | 11.8 | 13.0 | 29.7 | 23.7 | 21.9 |
| Education | | | | | | |
| Less than high school degree | 439 | a | a | 30.7 | 23.6 | 20.9 |
| High school degree | 1,502 | 8.9 | 16.6 | 31.9 | 21.1 | 21.5 |
| Some college | 1,494 | 10.2 | 16.6 | 28.0 | 22.8 | 22.4 |
| College degree | 1,178 | 11.7 | 12.1 | 28.1 | 27.6 | 20.6 |
| Industry | | | | | | |
| Mining and construction | 498 | a | a | 33.8 | 20.6 | 20.6 |
| Manufacturing | 1,437 | 9.3 | 17.8 | 27.7 | 27.8 | 17.3 |
| Wholesale and retail trade | 1,717 | 9.8 | 14.6 | 28.5 | 22.1 | 24.9 |
| Personal services | 873 | 11.6 | 12.6 | 32.7 | 20.6 | 22.6 |
| Public administration | 68 | a | a | a | a | a |
| Unknown | 21 | a | a | a | a | a |
| Occupation | | | | | | |
| Managerial and professional specialty | 1,307 | 10.4 | 14.1 | 29.4 | 28.0 | 18.1 |
| Technical, sales, and administrative support | 1,378 | 9.9 | 13.9 | 25.9 | 26.2 | 24.2 |
| Service | 1,093 | 10.9 | 15.6 | 31.4 | 18.6 | 23.4 |
| Operators, fabricators, and laborers | 812 | 10.4 | 18.3 | 33.0 | 18.2 | 20.1 |
| Unknown | 23 | a | a | a | a | a |
| Union Status | | | | | | |
| Union covered | 385 | a | 24.9 | 32.0 | a | a |
| Not union covered | 4,212 | 10.2 | 14.2 | 29.3 | 24.3 | 21.9 |
| Unknown | 15 | a | a | a | a | a |
| Tenure | | | | | | |
| Less than 1 year | 1,136 | 12.2 | 14.0 | 27.2 | 20.2 | 26.4 |
| 1–4 years | 2,173 | 7.8 | 12.3 | 29.8 | 26.5 | 23.6 |
| 5–9 years | 602 | a | 20.3 | 32.2 | 23.4 | 14.9 |
| 10–14 years | 320 | a | a | 30.6 | 24.8 | a |
| 15–19 years | 193 | a | a | a | a | a |
| 20 or more years | 189 | a | a | a | a | a |
| Annual Earnings (2000 \$) | | | | | | |
| Less than \$20,000 | 1,589 | 6.2 | 10.4 | 25.0 | 22.1 | 36.3 |
| \$20,000–\$29,999 | 1,077 | 9.4 | 14.8 | 31.0 | 24.4 | 20.3 |
| \$30,000–\$39,999 | 712 | a | 19.9 | 31.0 | 26.9 | 14.9 |
| \$40,000–\$49,999 | 407 | a | 22.4 | 37.2 | 20.1 | a |
| \$50,000–\$74,999 | 535 | 18.8 | 16.9 | 30.6 | 27.7 | a |
| \$75,000–\$99,999 | 170 | a | a | a | a | a |
| \$100,000 or more | 123 | a | a | a | a | a |

Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 2000 Supplement.

^a Fewer than 75,000 weighted respondents in this category.

Figure 13
Unemployment Insurance (UI) Reciprocity of Displaced Workers



Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

and 47.6 percent of those ages 55–64 (figure 14). Older workers were also more likely than younger workers to exhaust their UI benefits. Males were slightly less likely than females to receive UI benefits, and were also less likely to exhaust their benefits when received.

While there was no clear pattern regarding receipt of UI benefits and educational attainment of displaced workers, those with a college degree were least likely to exhaust their benefits when received. With respect to earnings, it appears that the likelihood of receiving UI benefits first increases with earnings and then decreases; however, there is no clear pattern regarding the exhaustion of UI benefits and earnings.

Similar to patterns observed with age, receipt of UI benefits generally increases with length of job tenure. In the same vein, the likelihood of exhausting UI benefits also generally increases with job tenure. This may indicate that older workers with a relatively high amount of job tenure who are displaced from a job and do not leave the labor force find it more difficult to find a job than younger workers with relatively less job tenure. It may also indicate that older workers are perhaps less willing to consider lower-paying alternatives as quickly as younger workers

Displaced union-covered workers were much more likely than displaced nonunion workers to receive UI benefits (60.4 percent vs. 34.6 percent), and they were more likely to exhaust these benefits when they were received (45.7 percent vs. 36.4 percent).

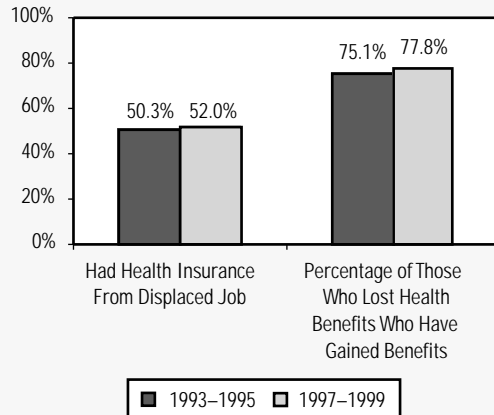
Workers displaced from the manufacturing sector were much more likely to receive UI benefits than other workers, and with the exception of workers displaced from public administration jobs, were more likely to exhaust UI benefits than other workers. Workers

Figure 14
Unemployment Insurance (UI) Reciprocity Among Workers Displaced During the Period 1997–1999

| | Number of Displaced Workers | Percentage Who Received UI Benefits | Percentage of UI Recipients Who Exhausted Benefits |
|--|-----------------------------|-------------------------------------|--|
| | (thousands) | | |
| Total | 7,521 | 36.8% | 37.7% |
| Age (in 2000) | | | |
| 20–24 | 878 | 14.7 | 20.6 |
| 25–34 | 1,909 | 28.1 | 33.5 |
| 35–44 | 2,177 | 41.6 | 32.3 |
| 45–54 | 1,581 | 48.0 | 41.9 |
| 55–64 | 764 | 47.6 | 46.0 |
| 65 and over | 213 | 35.4 | 78.6 |
| Sex | | | |
| Male | 4,024 | 36.3 | 34.4 |
| Female | 3,497 | 38.5 | 41.2 |
| Education | | | |
| Less than high school degree | 902 | 33.0 | 41.2 |
| High school degree | 2,504 | 38.4 | 37.7 |
| Some college | 2,380 | 36.8 | 40.2 |
| College degree | 1,735 | 36.5 | 32.5 |
| Annual Earnings (2000 \$) | | | |
| Less than \$20,000 | 2,407 | 27.0 | 45.6 |
| \$20,000–\$29,999 | 1,408 | 42.6 | 38.5 |
| \$30,000–\$39,999 | 900 | 45.9 | 33.4 |
| \$40,000–\$49,999 | 484 | 49.6 | 31.9 |
| \$50,000–\$74,999 | 679 | 41.9 | 33.7 |
| \$75,000–\$99,999 | 222 | 36.7 | 28.1 |
| \$100,000 or more | 149 | 31.6 | 49.8 |
| Unknown | 1,274 | 35.6 | 35.1 |
| Tenure | | | |
| Less than 1 Year | 2,097 | 24.2 | 31.4 |
| 1–4 years | 3,241 | 37.9 | 33.8 |
| 5–9 years | 969 | 48.7 | 37.9 |
| 10–14 years | 519 | 45.5 | 47.9 |
| 15–19 years | 312 | 42.9 | 40.9 |
| 20 or more years | 382 | 50.1 | 63.9 |
| Union Status | | | |
| Union covered | 680 | 60.4 | 45.7 |
| Not union covered | 6,765 | 34.6 | 36.4 |
| Unknown | 76 | 25.7 | 18.9 |
| Industry | | | |
| Mining and construction | 818 | 31.1 | 26.7 |
| Manufacturing | 2,263 | 49.1 | 41.1 |
| Wholesale and retail trade | 2,836 | 30.7 | 36.4 |
| Personal services | 1,393 | 31.7 | 39.8 |
| Public administration | 119 | 37.8 | 46.5 |
| Unknown | 92 | 50.8 | 10.2 |
| Occupation | | | |
| Managerial and professional specialty | 1,892 | 37.7 | 33.3 |
| Technical, sales, and administrative support | 2,268 | 37.8 | 38.6 |
| Service | 1,828 | 31.3 | 38.6 |
| Operators, fabricators, and laborers | 1,422 | 40.7 | 42.8 |
| Unknown | 111 | 40.1 | 10.8 |

Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 2000 Supplement.

Figure 15
Health Insurance Status on Displaced Job and New Job



Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 1996 and 2000 Supplements.

displaced from blue-collar occupations, such as operators, fabricators, and laborers, were more likely than other workers to receive UI benefits, and were also more likely to exhaust those benefits when received.

Health Insurance

Among the 7.5 million workers displaced from jobs during 1997-1999, 52 percent had health insurance coverage on that job, up from 50.3 percent of those displaced during 1993-1995 (figure 15). Among workers with health insurance on the job who were displaced from during 1997-1999, 77.8 percent had health insurance on their new job in 2000, up from 75.1 percent among those displaced during 1993-1995.

Older workers were generally more likely than younger workers to have health insurance either from their lost job or on their new job. For example, 21.4 percent of workers ages 20-24 displaced from jobs during 1997-1999 had health insurance, compared with 62.1 percent of workers ages 55-64 (figure 16). Similarly, 66.6 percent of workers ages 20-24 with health insurance from the lost job had health insurance on the new job, compared with 85.5 percent among workers ages 55-64. While males were more likely than females to have had health insurance from their lost job, females were slightly more likely than males to have health insurance (other than Medicare and Medicaid) in 2000. Not surprisingly, the likelihood of having health insurance also

Figure 16
Health Insurance Status Among Workers Displaced During the Period 1997-1999

| | Number of Displaced Workers (thousands) | Had Health Insurance From Displaced Job | Percentage Who Currently Have Health Insurance ^a |
|--|---|---|---|
| Total | 7,521 | 52.0% | 77.8% |
| Age (in 2000) | | | |
| 20-24 | 878 | 21.4 | 66.6 |
| 25-34 | 1,909 | 47.7 | 77.4 |
| 35-44 | 2,177 | 58.7 | 75.5 |
| 45-54 | 1,581 | 61.1 | 81.2 |
| 55-64 | 764 | 62.1 | 85.5 |
| 65 and over | 213 | 46.0 | 62.2 |
| Sex | | | |
| Male | 4,024 | 55.8 | 77.5 |
| Female | 3,497 | 47.7 | 78.3 |
| Education | | | |
| Less than high school degree | 902 | 28.1 | 50.1 |
| High school degree | 2,504 | 48.2 | 74.3 |
| Some college | 2,380 | 51.5 | 76.9 |
| College degree | 1,735 | 70.8 | 87.9 |
| Annual Earnings (2000 \$) | | | |
| Less than \$20,000 | 2,407 | 23.3 | 67.1 |
| \$20,000-\$29,999 | 1,408 | 59.3 | 73.2 |
| \$30,000-\$39,999 | 900 | 75.9 | 77.3 |
| \$40,000-\$49,999 | 484 | 79.8 | 82.7 |
| \$50,000-\$74,999 | 679 | 84.2 | 85.0 |
| \$75,000-\$99,999 | 222 | 86.0 | 89.9 |
| \$100,000 or more | 149 | 85.5 | 88.1 |
| Unknown | 1,274 | 44.0 | 79.0 |
| Tenure | | | |
| Less than 1 Year | 2,097 | 29.3 | 72.7 |
| 1-4 years | 3,241 | 53.0 | 77.4 |
| 5-9 years | 969 | 63.6 | 78.3 |
| 10-14 years | 519 | 78.6 | 77.4 |
| 15-19 years | 312 | 74.5 | 85.4 |
| 20 or more years | 382 | 85.6 | 83.8 |
| Union Status | | | |
| Union covered | 680 | 84.4 | 79.1 |
| Not union covered | 6,765 | 48.9 | 77.9 |
| Unknown | 76 | 39.9 | 46.9 |
| Industry | | | |
| Mining and construction | 818 | 43.5 | 66.9 |
| Manufacturing | 2,263 | 65.2 | 78.2 |
| Wholesale and retail trade | 2,836 | 43.6 | 80.5 |
| Personal services | 1,393 | 51.3 | 75.9 |
| Public administration | 119 | 72.5 | 90.3 |
| Unknown | 92 | 51.3 | 84.2 |
| Occupation | | | |
| Managerial and professional specialty | 1,892 | 70.9 | 87.0 |
| Technical, sales, and administrative support | 2,268 | 51.5 | 79.6 |
| Service | 1,828 | 37.0 | 66.5 |
| Operators, fabricators, and laborers | 1,422 | 47.1 | 67.3 |
| Unknown | 111 | 51.6 | 83.7 |

Source: Employee Benefit Research Institute estimates from the February Current Population Survey, 2000 Supplement.

^aOther than Medicare or Medicaid.

increased with education, annual earnings, and job tenure.

Union workers were more likely to have health insurance from the lost job than nonunion workers. Specifically, 84.4 percent of unionized workers had health insurance from the lost job, compared with 48.9 percent of nonunionized workers. Unionized and nonunionized workers displaced from jobs during 1997–1999 were about equally as likely to have health insurance (other than Medicare and Medicaid) in 2000 (79.1 percent and 77.9 percent, respectively).

Workers displaced from public administration jobs were most likely to have had health insurance in their job, and most likely to have health insurance in 2000. Workers displaced from manufacturing jobs were next most likely to have health insurance from their lost job, but workers displaced from wholesale and retail trade jobs were slightly more likely than workers displaced from manufacturing jobs to have health insurance in 2000. Workers displaced from white-collar jobs, such as those in the managerial and professional specialty occupations, were both most likely to have had health insurance from the lost job (70.9 percent) and most likely to have health insurance in 2000 (87 percent).

Previous Research

There is a large and growing literature that has examined the impact of job displacement on workers. Prior reviews of the literature on displaced workers can be found in Hamermesh (1989), Fallick (1996), Kletzer (1995), and Yakoboski (1997). In addition, Kletzer (1998) discusses the state of knowledge on the issues and questions of job displacement. This section adds to those reviews.

The data used come primarily from two sources: the Current Population Survey (CPS) and the University

of Michigan's Panel Study of Income Dynamics (PSID). Historically, these two surveys have yielded systematically different trends in job stability. However, a recent study found that both surveys show similar trends once consistent data series, variable definitions, and time periods were used (Jaeger and Stevens, 1999). Prior to this study, it was not possible to reconcile differences in job stability estimates from the existing empirical literature. Jaeger and Stevens do find that, starting in the late 1980s, there has been a statistically significant increase in the probability of workers having less than 10 years of job tenure, but no significant trend in the share of workers with one year or less of tenure.

A number of other researchers have examined job stability over time. Polsky (1999) examined job stability over time and found that the duration of jobs was generally stable but that involuntary job loss increased, relative to quits, particularly among older workers. He also found that adverse consequences of involuntary job losses became more severe between the two periods of 1976–1981 and 1986–1991, as evidenced by a reduction in the probability of regaining employment and an increased likelihood of receiving a lower wage in the job subsequent to the job loss. Bernhardt et al. (1999) found that wage returns to job changing have both declined and become more unequal for young adults. They conclude that this is not necessarily from job displacement as much as it is from job search and job change. Gottschalk and Moffitt (1999) found that the duration of jobs has not changed, but turnover is more likely to be involuntary. Diebold, Neumark, and Polsky (1997) also conclude that job retention rates have remained stable.

This report examines displacements that occurred during 1993–1995 and 1997–1999. Valletta (1997) concluded that displacement rates during 1993–1995 were high by historical standards, and that displacement over recent years has been due largely to corporate downsizing, with much of the consequent burden falling on skilled white-collar workers with substantial job security. Similarly, Carrington (1993) found that much of

A vast amount of research has been devoted to unemployment insurance and its effects on return-to-work incentives and/or duration of displacement, with the clear consensus that the higher the ratio of unemployment income to that of lost earnings, the longer the spell of unemployment.

the wage losses of displaced workers were attributable to various industrial, occupational, and locational downturns rather than a loss of firm-specific earnings power. Wage losses were much larger for displaced workers who switch industries, even after controlling for local labor market conditions.

Kodrzycki (1996) found that being laid off from a declining industry tended to result in a longer duration of unemployment. Kodrzycki argued that workers in declining industries also tended to experience sharper earnings cuts than others because they had extensive experience at their previous employer that was not highly valued by the new employer. Along the same lines, Stevens (1997) found that the effects of job displacement are quite persistent. She found that earnings and wages remained approximately 9 percent below their expected levels for six or more years after a job displacement, with much of the reduction in potential wages being explained by additional job displacement in the years following the initial job displacement. Similarly, Chan and Stevens (2001) found that four years after job losses at age 55, the employment rate of displaced workers remained 20 percentage points below the employment rate of similar nondisplaced workers.

Estimates from Stevens and others may underestimate the impact of job displacement on wages. de la Rica (1995) and others (Jacobson, Lalonde, and Sullivan, 1993; and Ruhn, 1991) found that workers lose an average of 9 percent of their earnings prior to job displacement as a result of wage cuts prior to mass layoffs. The implication is that those studies that only take into consideration the post-displacement losses of workers displaced in mass layoffs underestimate the total costs incurred by these workers. Farber (1999) found that job losers are significantly more likely than nonlosers to be in both temporary jobs and involuntary part-time jobs. He also found evidence that temporary and involuntary part-time jobs are part of a transitional process subse-

quent to job loss, leading to regular full-time employment.

A vast amount of research has been devoted to unemployment insurance and its effects on return-to-work incentives and/or duration of displacement, with the clear consensus that the higher the ratio of unemployment income to that of lost earnings, the longer the spell of unemployment. McCall (1995) found

that increased benefit levels (as measured by the fraction of lost weekly earnings replaced) significantly increased the probability of UI reciprocity among those eligible. To cite one example, Benham (1993) found that availability of UI benefits allowed individuals to extend their unemployment duration (and job search) and obtain higher post-unemployment wages. In addition, Hughes, Peoples, and Perlman (1996) found that duration of unemployment is positively related to pre-unemployment earnings itself, and thus concluded that the availability of UI improves job search results, particularly among high-income recipients.

McMurrer and Chasanov (1995) found that the share of the unemployed receiving UI has consistently declined since the 1940s, with dramatic drops occurring during 1980–1984. They argue that this decline has jeopardized wage replacement for involuntary unemployed individuals and the countercyclical stabilization of the economy. The reasons they cited for the decline include federal and state policy changes, broad demographic changes, and declines in the manufacturing sector and in unionization.

Numerous other studies have also examined the impact of unionization on job displacement and receipt of UI benefits. Budd and McCall (1997) focused on the impact of unionization on the receipt of UI benefits among unemployed workers eligible for UI benefits. They found no statistically significant effect on the probability of UI benefit receipt among white-collar workers, but they did find an effect among blue-collar workers.

Specifically, among eligible blue-collar workers, those who were laid off from union jobs were roughly 23 percent more likely than comparable nonunion workers to receive UI benefits. Kuhn and Sweetman (1998) focused on the loss of union coverage as a result of job displacement and its subsequent effect on wages. They found that the loss of union membership is a central factor accounting for wage losses among displaced workers in Canada, and is a major factor in the United States.

Conclusions

Over the period 1997–1999, 7.5 million individuals were displaced from a job (i.e., they lost or left a job because their plant or company closed or moved, their position or shift was abolished, or there was insufficient work), down from 9.4 million during 1993–1995. A disproportionate share of those displaced were young; males; nonunion workers; workers employed in mining, construction, manufacturing, and wholesale and retail trade; and workers employed as operators, fabricators, and laborers.

Nearly 81 percent of workers displaced during 1997–1999 have returned to work, compared with nearly 78 percent of workers displaced during 1993–1995. Among those displaced during 1997–1999, 40.9 percent were unemployed for two weeks or less, while 55 percent were unemployed for five weeks or less. Among those re-employed, 18 percent were unemployed for more than 20 weeks, and 10.9 percent were unemployed more 40 weeks. Fifty-three percent were re-employed with annual earnings of either plus or minus 25 percent of their previous earnings. More than 21 percent earned at least 125 percent of their previous earnings, while 25.4 percent took jobs that paid three-quarters or less of their previous earnings.

At the individual level, job displacement can

entail real economic hardship. However, given the actual number of individuals affected and the finding that a large share of those displaced were relatively young, in the aggregate the adverse consequences for health care and retirement income security would appear to be limited. Many younger workers do not participate in a retirement plan at work and therefore do not lose retirement benefits if displaced. Furthermore, given typical tenure patterns among younger workers, it is unclear how many younger plan participants ultimately would have vested had they not been displaced.

But unlike saving for retirement, which occurs over a lifetime, health care services may be needed during short periods of time. While nearly 78 percent of those who had health insurance at their former job had private health insurance as of 2000, lack of health insurance coverage during even a short period of time between jobs can be financially devastating to a family. EGTRRA addressed catch-up retirement contributions for displaced workers¹² and Congress recently debated ways to maintain health insurance coverage during unemployment spells.¹³ These recent debates amplify the continuing role that employee benefits play in the economic security of American families.

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Endnotes

¹ www.bls.gov/news.release/empsit.t01.htm

² www.bls.gov/news.release/empsit.t05.htm

³ Take-up rates for COBRA coverage are roughly 20 percent (Fronstin, 1998). Besides the cost of COBRA coverage, take-up rates may be low because when workers change jobs they often have health insurance from the new job. COBRA take-up rate data for displaced workers are not available.

⁴ Employers may like the idea of federally funded subsidies for COBRA. On average, COBRA claims costs are around 1.5 times the cost of active-employee claims costs. This occurs because COBRA beneficiaries are less healthy, on average, than the active worker population. Accordingly, premiums collected from COBRA beneficiaries do not cover the full cost of health care services rendered to them, since employers are allowed to charge such beneficiaries only 102 percent of the premium, which is based on active employee claim costs. If the federal government were to subsidize COBRA premiums, more healthy persons would likely enroll in COBRA. This would have the effect of reducing the cost of adverse selection. However, subsidies would have to be large enough to provide an incentive for healthy people to take COBRA before employers would realize any cost savings from such an expansion.

⁵ There are numerous issues with the nongroup market. For a discussion, see Fronstin (2001a).

⁶ While the impact of a tax credit for health insurance on displaced workers' health insurance status may differ from the impact on the uninsured population, the discussion of Pauly and Herring (2001) highlights how uncertain these models can be in predicting the effect of tax credits.

⁷ In the future, this will be less of a problem for 401(k) participants to the extent that matching contributions will be subject to a three-year cliff vesting period or six-year graded period.

⁸ Cash balance plans, or defined benefit plans under which employers usually communicate benefits as account balances, generally offer benefits in the form of lump-sum distributions (Quick, 1999).

⁹ Under Savings Incentive Match Plans (SIMPLE), withdrawals not preserved in a tax-qualified plan are subject to a 25 percent penalty tax.

¹⁰ Early withdrawals from IRAs are subject to income tax and an excise tax of 10 percent, except for the purchase of a new home or certain educational expenses.

¹¹ Because there were too few observations to determine the percentage of displaced workers ages 20–24 with re-employment earnings of less than 50 percent, the 47 percent estimate is calculated as follows: 100 percent minus 22.1 percent with earnings of 101–125 percent, minus 30.9 percent with earnings over 125 percent.

¹² While displaced workers can make catch-up contributions once they reach age 50 if their employer allows it, they are not able to make up lost interest and capital appreciation between the time of the job displacement and the time of the catch-up contribution.

¹³ As of this writing, the U.S. House of Representatives and the U.S. Senate had failed to agree on an economic stimulus package for 2001, including provisions for unemployed workers to maintain health benefits. The stimulus legislation is expected to be revived in 2002.

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