Pension Simplification, Access, and Preservation: Will Pending Proposals Achieve Goals?

Efforts to simplify pension plan rules and improve pension coverage have gained momentum in the 102nd Congress. Influential members of the House Ways and Means and Senate Finance committees have offered several comprehensive proposals relating to pension access, simplification, and preservation. But while enthusiasm about the prospects of passage of legislation has increased, widespread skepticism exists over whether or not the proposals will actually achieve their purported goals.

Simplicity vs. Flexibility

Federal laws and regulations governing pension plans have often been cited as among the most complex tax code provisions. Pension plan sponsors often point to the frequency of changes to the law as contributing greatly to the complexity. Since the enactment of the Employee Retirement Income Security Act of 1974 (ERISA), Congress has changed some aspect of pension law almost annually. Advocates of simplification argue that the complex pension rules have discouraged employers, especially small employers, from sponsoring plans. In defense, policymakers assert that the plan sponsors often requested the changes that ultimately led to greater complexity.

At odds in the development of pension plan rules is the desire to achieve simplicity while maintaining flexibility. Congress could require employers to choose from only one or two model pension plans, thereby simplifying the rules enormously. But, in most cases employers want to maintain flexibility in designing their compensation packages to meet their specific goals and circumstances. Therefore, the tax code allows a variety of tax-favored retirement savings vehicles, each of which comes with different rules that invariably lead to greater complexity.

Another factor contributing to complexity is the desire for certainty in the laws. Plan sponsors and practitioners have often complained about the ambiguity in pension laws. But attempts to clarify the rules have often been criticized as too rigid or administratively burdensome. According to the Joint Committee on Taxation, “any attempts to reduce complexity of the employee benefits laws must balance the desire for simplicity against the perceived need for certainty.”

These competing factors lead to the conclusion that pension simplification is not simple. Nevertheless, in response to concerns about retirement security, comprehensive pension proposals have been put forth by leading policymakers in both houses of Congress. Senate Finance Committee Chairman Lloyd Bentsen (D-TX) and Sen. David Pryor (D-AR) have introduced the Employee Benefits Simplification and Expansion Act of 1991. House Ways and Means Committee Chairman Dan Rostenkowski (D-IL) and Ways and Means members Ben Cardin (D-MD), Rod Chandler (R-WA), and Sam Gibbons (D-FL) have each introduced their own comprehensive proposals. The Bush administration has offered its own plan, the Pension Opportunities for Workers Expanded Retirement (POWER) proposal.

2Rep. Cardin’s bill (H.R. 2742) is the House companion bill to the Bentsen/Pryor bill (S. 1364).
3Rep. Gibbons introduced comprehensive legislation (H.R. 2390) May 20 to expand pension coverage, improve pension portability, and increase retirement savings. However, because the provisions of the legislation are much different from the aforementioned proposals and the Gibbons bill is deemed less likely to pass, this analysis does not discuss his bill. In addition, House Ways and Means member Barbara Kennelly (D-CT) introduced a pension portability bill (H.R. 1735) in April. Once again, due to space limitations and the bill’s different approach, it will not be discussed in this analysis.
Each proposal suggests numerous changes to current pension law. Specific provisions of various proposals relate to 401(k) plans for tax-exempt organizations and state and local governments, full-funding limits, the definition of highly compensated employees, family aggregation rules, 401(k) actual deferral percentage (ADP) testing, minimum participation rules, and multiemployer plan vesting. In addition, each proposal contains provisions aimed at increasing pension coverage among employees of small firms. Provisions to simplify and modify current rules regarding qualified plan distributions are also included in each bill. Due to the technical nature of many of the proposed tax changes, this article will focus on the small employer provisions and distribution rule changes contained in the proposed legislation. Table 1 outlines other major provisions contained in the proposals.

**Incentives for Small Plan Sponsorship**

Plan sponsorship rates among small firms have been persistently low, compared with medium and large firms. Only 17 percent of private-sector nonfarm workers in firms with fewer than 25 employees reported that their employer sponsored a “pension or retirement” plan in 1988, while 44 percent at firms with 25–99 employees and 79 percent at firms with 100 or more workers reported sponsorship. Moreover, small-firm sponsorship appears to be declining. In 1979, 21 percent of nonfarm workers at firms with fewer than 25 employees reported that their employer sponsored a pension or retirement plan, while in 1983 19 percent reported coverage, declining to 17 percent in 1988.

Small employers generally cite regulatory and administrative burdens as major impediments to plan sponsorship. Small firms bear proportionately greater per participant administrative costs than large companies due to economies of scale. In 1991, the annual per participant ongoing administrative cost of plans with 15 participants was $455 for defined benefit plans (an increase of 181 percent in 10 years) and $228 for defined contribution plans (an increase of 99 percent in 10 years). In comparison, the per participant administrative cost for plans with 500 participants was $133 for defined benefit plans (136 percent increase) and approximately $85 for defined contribution plans (56 percent increase).

As an alternative to costly and more complex qualified pension plans, Congress established a new tax-favored retirement plan in 1978 aimed primarily at small employers—the simplified employee pension (SEP). Paperwork, recordkeeping, and reporting requirements are kept to a minimum in SEPs. To increase their attractiveness, Congress added a pretax elective salary reduction feature under the Tax Reform Act of 1986—creating the so-called “SARSEP.” Although companies of any size may set up SEPs, SARSEPs are available only to firms with 25 or fewer employees, at least 50 percent of whom must elect to have amounts contributed to the SEP.

Despite these efforts, SEPs have not caught on. By 1990, just 1 percent of full-time workers at private establishments with fewer than 100 employees participated in a SEP.

In testimony before the House Aging Subcommittee on Retirement Income and Employment, EBRI Research Associate Joseph Piacentini said the low popularity of SEPs “suggests that simplicity alone is insufficient to spur small-plan sponsorship.” SEPs’ lack of flexibility regarding the allocation of contributions among employees may be one reason SEPs are not more popular, according to Piacentini. With very limited exceptions, SEP sponsors are required to contribute to all employees’ accounts in proportion to their pay, subject to certain maximums.

Nevertheless, the majority of the congressional proposals advanced contain provisions to expand and improve the SARSEP concept. The Pryor/Bentsen/Cardin (H.R. 2742) legislation and the Chandler bill (H.R. 2641) would increase the number of allowable participants for SARSEPs from 25 to 100. Both bills would repeal the current requirement that 50 percent of eligible employees must participate. The Pryor/Bentsen/Cardin bill would also provide that all safe harbors applicable to qualified cash and deferred arrangements (CODAs) under the bill apply to SARSEPs. Thus, plan sponsors would be exempt from the current ADP-type test for

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SARSEPs if the plan provides: (1) a nonelective employer contribution of at least 3 percent of compensation or (2) that nonhighly compensated employees receive a 100 percent match on elective deferrals up to 3 percent of compensation and a 50 percent match for deferrals of 3 percent to 5 percent of compensation. The Chandler bill would provide that the 3 percent nonelective contribution safe harbor applicable to CODAs under the bill apply to SARSEPs (table 1).

Sen. Bob Packwood (R-OR) and Rep. John LaFalce (D-NY) introduced similar legislation (S. 318, H.R. 2294) earlier this year that would create new private retirement incentive matched by employers (PRIME) accounts to encourage savings by small business employees. The PRIME account would be similar to a 401(k) plan but without nondiscrimination testing requirements. Under the proposal, employees of firms with 100 or fewer employees would be allowed to make tax deductible contributions, through payroll deductions, of up to $3,000 annually. Employers would be required to match each employee’s contribution 100 percent up to a maximum of the first 3 percent of compensation. The LaFalce bill would also extend the PRIME accounts to firms with 100–250 employees that have not offered pension benefits in the last five years.

The Rostenkowski bill would replace present-law SARSEPs with new rules. Under his plan, employers (including tax-exempt and state and local government employers) with fewer than 100 employees and no other qualified retirement plan could establish a SARSEP and be exempt from nondiscrimination rules if they meet the following requirements: (1) the employer must contribute at least 3 percent of pay (not in excess of $100,000) to each eligible employee’s SEP, or 5 percent if the employer or a predecessor maintained a qualified plan (other than a SEP) during either of the two years preceding the year the SARSEP is established; (2) employees must be allowed to make pretax contributions of up to $5,000 (indexed) per year; and (3) employer matching contributions cannot exceed more than 50 percent of the employee contributions.

The POWER proposal is generally the same as Rostenkowski’s, except the only minimum required contribution would be 2 percent of compensation, and the maximum permitted elective deferral is one-half the dollar limitation applicable to qualified CODAs ($4,238 for 1991 (1/2 of $8,475)).

It is questionable whether or not these proposals would significantly increase coverage among small firms. If you accept that many small employers do not sponsor plans because of administrative costs, in order to succeed these plans must be perceived to be a less costly alternative. In testimony before the House Ways and Means Subcommittee on Select Revenue Measures, the American Institute of Certified Public Accountants (AICPA) directly addressed nonelective contributions. According to AICPA, costs associated with administering a plan do not usually come close to approaching 2 percent of compensation. Therefore, AICPA said they “do not believe that employers, who are unwilling to adopt a 401(k) plan because administration costs are unacceptably high at less than 2 percent of compensation will be interested in adopting a [SAR]SEP which requires them to contribute 2 percent or more of compensation for all eligible participants in order to be exempt from the ADP test.”

And while proposals that allow safe harbors based on provisions for matching contributions may increase pension sponsorship, they may disproportionately benefit highly compensated employees. Lower earners may elect to contribute little or nothing to strictly voluntary plans. This result may be inconsistent with basic public policy reasons for extending favorable tax treatment to employer-sponsored pension plans.

Moreover, several other factors affect a small employer’s decision to sponsor a plan. According to Piacentini, “sponsorship is also impeded by relatively low pay levels, which suggest a less skilled and possibly less attached work force.” Lower pay might reflect small employers’ desires or needs to keep compensation costs down—a goal that conflicts with the addition of pension benefits. At the same time, lower-paid workers may be reluctant to defer pay and might benefit less from tax deferral due to lower marginal tax rates. In addition, small employers might lack information about pensions. Service providers, perceiving no viable market for small-firm pension plans, might forgo marketing efforts that could otherwise disseminate information.

Policymakers seeking to increase pension access among small firms must also consider the rising costs of health care. Small firms have faced disproportionately high increases in the costs of providing health benefits to their employees. In turn, employees have consistently shown a preference for health benefits over all other employee

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benefits. A 1991 EBRI/Gallup public opinion survey found that 63 percent of respondents regard health insurance as the most important employee benefit. Therefore, as EBRI President Dallas Salisbury pointed out in testimony before the House Budget Committee, "with health care costs rising and health benefit man-

\[\text{\textsuperscript{10}}\text{Statement of Dallas L. Salisbury, president of the Employee Benefit Research Institute, before the Committee on the Budget, U.S. House of Representatives, 25 July 1991.}\]

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Summary of Major Provisions in Selected Pension Proposals</th>
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<tbody>
<tr>
<td>Rostenkowski Bill (H.R. 2730)</td>
<td>Pryor/Bentsen Cardin Bill (S. 1364, H.R. 2742)</td>
</tr>
<tr>
<td>Rollover provisions</td>
<td>Permits tax-free rollovers of any portion of a lump-sum distribution unless the distribution is: (1) a minimum required distribution, (2) attributable to after-tax employee contributions, or (3) part of a stream of periodic payments payable over a period of 5 years or more, or over the life of the employee and/or his or her beneficiary.</td>
</tr>
<tr>
<td>Trustee-to-trustee transfers</td>
<td>Requires qualified plans to give participants the option of having a distribution transferred directly to an IRA or another qualified plan. Qualified plans are not required to accept trustee-to-trustee transfers.</td>
</tr>
<tr>
<td>Tax treatment of lump-sum distributions</td>
<td>Repeals 5-year forward averaging, TRA '86 grandfather rules for 10-year averaging and capital gains treatment, the exclusion for net unrealized appreciation, the higher threshold for lump sums under the 15% excess distributions tax, and the $5,000 death benefit exclusion. Generally effective 1/1/92.</td>
</tr>
<tr>
<td>401(k) ADP testing provisions</td>
<td>Replaces current ADP test with one that would limit each highly compensated employee to a deferral of 200 percent of the ADP of eligible nonhighly compensated employees for the prior year.</td>
</tr>
<tr>
<td>(continued)</td>
<td></td>
</tr>
<tr>
<td>provision type</td>
<td>Rostenkowski Bill (H.R. 2730)</td>
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<tr>
<td>----------------</td>
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</tr>
<tr>
<td>Small employer provisions</td>
<td>Creates new SARSEPs that permit employers with 100 or fewer employees and no other retirement plan to be exempt from nondiscrimination rules if they meet the following requirements: (1) the employer must contribute at least 3% of pay (not in excess of $100,000) to each eligible employee’s SEP, (2) employees must be allowed to make pretax contributions of up to $5,000 (indexed) per year, and (3) employer matching contributions cannot exceed more than 50% of the employee contributions.</td>
</tr>
<tr>
<td>Full-funding limit provisions/ Vesting provisions</td>
<td>Provides alternative full-funding limit for plans in which the employer’s control group is not top-heavy and the accrued liability of active participants is 90% of the plan’s total accrued liability. Shortens vesting schedule to 5 years for multiemployer plans.</td>
</tr>
<tr>
<td>Tax-exempt/ state &amp; local employers</td>
<td>Extends 401(k) plans to tax-exempt organizations and state &amp; local government employers.</td>
</tr>
<tr>
<td>Definition of highly compensated employee</td>
<td>Limits definition to 5% owners, individuals earning at least $65,000 (indexed) in the prior year, or the highest paid individual. It applies to the top 100 employees by compensation.</td>
</tr>
<tr>
<td>Leased employee rules</td>
<td>Replaces historically performed test with “any significant direction or control” test.</td>
</tr>
<tr>
<td>Minimum participation requirements</td>
<td>No provision.</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation
Thus, the impact of pending proposals on small-firm plan sponsorship is likely to be modest. According to Salisbury, "small employers have never sponsored pension plans in large numbers, not even when tax rates were very high for both individuals and corporations, and legislation and regulation were light."

**Preservation**

Recent policy attention has focused on the importance of pension preservation. Increasingly, retirement plan participants who leave their jobs before retiring receive the value of their accrued benefits in the form of immediate lump-sum distributions. While these distributions represent fully portable benefits, evidence suggests that workers rarely preserve these benefits’ full value until retirement.\(^{11}\)

Under current law, pension recipients are permitted a one-time election of 5-year forward averaging for a lump-sum distribution received after age 59 1/2. Special grandfather rules allowing 10-year averaging and special capital gains treatment are available with respect to employees who were 50 years old before Jan. 1, 1986. Rostenkowski, Chandler, Pryor/Bentsen/Cardin, and the POWER proposal would all repeal 5-year income averaging of lump-sum distributions. The Rostenkowski bill and the POWER proposal would also phase out the transitional rules. Thus, all retirement distributions would be taxable at regular tax rates in the year they are received.

Provisions repealing income averaging rules are perhaps the most controversial element of the proposed legislation. Advocates of repeal argue that these rules are not only overly complex but they also encourage individuals to consume retirement savings. Opponents strongly defend the rules, saying repeal would be unfair to new retirees because it would potentially change their tax liabilities, which may result in hardships to certain individuals. Moreover, opponents contend that the repeal provisions are primarily motivated by revenue-raising needs.

To encourage preservation of pension assets, each proposal contains provisions significantly liberalizing the circumstances under which distributions from qualified plans may be rolled over, tax free, to individual retirement accounts (IRAs) or other qualified plans. The Rostenkowski bill and POWER proposal would also require plan sponsors to offer direct transfers to IRAs or qualified plans as an additional distribution option. The Pryor/Bentsen/Cardin bill goes further by requiring direct transfers of preretirement distributions of more than $500.

**Revenue Implications**

Under the new pay-as-you-go federal budget rules, any legislation proposing new direct spending or decreasing revenues must be offset so that the net deficit is not increased.\(^{12}\) Thus, theoretically, for any of the proposed pension bills to pass they must be revenue neutral.

Rostenkowski contends that his bill would be revenue neutral. Similarly, the Bush administration claims the POWER proposal would not lose revenue. Indeed, the number one revenue raising item of both proposals would be the elimination of 5- and 10-year averaging. The U.S. Department of the Treasury estimates that changes to the distribution rules, including liberalization of rollover rules and repeal of the current tax treatment of lump-sum distributions, would net $600 million in the first year and $3 billion over five years. According to Treasury estimates, this revenue would offset the cost of expanding SARSEPs, extending 401(k) plans to tax-exempt organizations and state and local governments, modifying 401(k) nondiscrimination rules, and other provisions.

The reliability of revenue estimates always depends on assumptions used in their determination. For example, in order for the distribution rules to raise such significant revenue, it is likely estimators assume most individuals who receive preretirement distributions will elect to pay the full tax rather than roll over benefits into tax-free vehicles. Thus, policy objectives become confused. Is the objective of distribution rules changes to encourage pension preservation or raise revenue? At any rate, under current budgetary constraints, the perceived revenue impact of a proposal can determine whether or not it will pass.

Based on Treasury estimates, the Rostenkowski proposal appears to meet the pay-as-you-go requirements. The Bush administration has endorsed the Rostenkowski proposal based on these criteria and because it achieves "meaningful simplification without altering fundamental

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retirement and tax policies." On the other hand, Treasury said it opposes the Chandler and Cardin bills because a preliminary review indicates the bills would lose significant revenue.

**Prospects for Passage**

New budgetary rules, recent foreign events, and the relatively few days left in this session of Congress make it unlikely that any tax legislation will pass this year. But while this is true for 1991, the prospects for passage of some type of pension simplification in the near future are high. What form that legislation will take, however, is uncertain.

The final bill is likely to be a combination of the various proposals. Some of the more controversial elements of the proposals, such as income averaging and 401(k) ADP testing safe harbors, will either be reconciled in conference or deleted from the legislation. Revenue considerations and opposition to specific provisions may result in a much more scaled-down bill. But with Rostenkowski, Bentsen, and the Bush administration committed to the overall concept, “pension simplification” legislation is likely to be enacted. Whether or not the final bill achieves meaningful simplification, expands access, and encourages preservation depends on the politics surrounding the issue as well as the makeup of the pension system in which it will operate.

—Nora Super Jones, EBRI

◆ **Small Private Establishments Have Low Rates of Insurance Coverage, BLS Survey Shows**

Full-time employees in small private establishments have considerably lower rates of coverage for all types of insurance than their counterparts in medium and large establishments,¹³ according to a 1990 Bureau of Labor Statistics (BLS) survey¹⁴ (table 2). The survey provides information on the incidence and characteristics of benefit plans for an estimated 40.8 million employees (32.6 million full-time and 8.2 million part-time employees), who represent nearly 40 percent of the nation’s civilian employed population (table 3).

The survey shows that 69 percent of full-time employees in small private establishments were provided health insurance benefits in 1990, compared with 92 percent of full-time employees in medium and large establishments in 1989 (table 2). Among part-time workers in small private establishments, less than 10 percent had health care or other benefits in 1990 (table 3).¹⁵

Approximately 75 percent of full-time employees in small private establishments who received medical care benefits were covered by a traditional fee-for-service plan, approximately 13 percent were covered by a health maintenance organization (HMO), and roughly 12 percent were covered by a fee-for-service plan with a preferred provider option (PPO). This breakdown is nearly the same as that reported in the 1989 BLS survey of medium and large firms, in which 74 percent were covered by a traditional fee-for-service plan, 17 percent were covered by an HMO, and 10 percent were covered by a traditional fee-for-service plan with a PPO. Roughly 66 percent of full-time employees in small private establishments with medical care benefits were required to make a contribution toward their premium. The average monthly contribution was $25 for individual coverage and $110 for family coverage.

Life insurance was provided to 64 percent of full-time employees in small private establishments, compared with 94 percent of employees in medium and large establishments in 1989 (table 2). Approximately 60 percent of plan participants in small establishments received benefits specified as a flat amount, averaging slightly more than $15,000. Benefits for the remaining participants were based on salary and typically amounted to one or two times annual pay. Approximately 20 percent of plan participants were offered additional life insurance, for which they paid the premium. And, approximately 20 percent of life insurance plan participants were in plans that continued coverage after retirement, although the retirement benefits were reduced for the majority of these participants.

Approximately 26 percent of full-time employees in small private establishments received sickness and

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¹³Defined as establishments with 100 or more employees.
¹⁴U.S. Department of Labor, Bureau of Labor Statistics, “BLS Reports of Its First of Employee Benefits in Small Private Establishments,” USDL news release, 10 June 1991. BLS defines small private establishments as those having fewer than 100 employees. This definition includes small establishments that are part of larger enterprises and small independent business, except farms and households. Three-fourths of the covered employees were in independent small business, and the remainder were small units of larger companies. This survey is the first to include part-time employees.

¹⁵Because of the limited incidence of benefits among part-time employees, plan provisions for these workers could not be examined as thoroughly as those for full-time employees. A comparison with workers in medium and large establishments cannot be made because the 1989 BLS survey included only full-time employees.
accident, or short-term disability, insurance, compared with 43 percent of those in medium and large establishments in 1989 (table 2). The policies held by most small establishment employees required a seven-day waiting period before benefits began, provided benefits for up to 26 weeks, and paid an amount equal to one-half or two-thirds of regular pay.

Of all full-time employees in small private establishments, roughly 19 percent were covered by a long-term disability plan in 1990, compared with 45 percent of employees in medium and large establishments in 1989 (table 2). Approximately 75 percent of small establishment employees who had coverage were in plans that were employer paid. The plans typically provided payments equal to 60 percent of predisability pay.

The BLS survey distinguishes between small independent private businesses and small private establishments. Small private establishments are part of larger firms, e.g., local service units of large manufacturing companies, and have greater access to insurance benefits through the parent corporations, whereas small independent businesses such as neighborhood restaurants are not affiliated with larger firms.

Currently, Congress and a number of states are debating proposals aimed at reforming the small group insurance market through either broad changes in the health care system or more incremental changes aimed directly at the small group market. Twenty-two states, having identified state mandates as a major contributor to health insurance costs for small employers, have enacted “bare bones” insurance plans that waive these mandates and impose cost sharing techniques such as deductibles and copayments. Since 13 of these plans were enacted as recently as Jan. 1991, their effectiveness cannot be fully analyzed; however, the response to the earlier laws has been limited.

Several national health insurance proposals are currently before Congress. Leading Senate Democrats introduced June 5 a comprehensive health care reform proposal (S.1227) that takes a “play-or-pay” approach, requiring employers to provide health care coverage to their employees and their families or contribute to a public plan. The proposal includes tax and other incentives to assist small employers to purchase group health insurance while imposing a basic benefit plan on the group insurance market. This plan, which would preempt state mandates, would cover hospital services, physician services, diagnostic tests, limited mental health benefits, prenatal and well baby care, and preventive health benefits. Rep. Dan Rostenkowski (D-IL) introduced Aug. 2 a similar measure (H.R. 3205).

Other congressional proposals deal solely with problems faced by small employers. Sen. Dave Durenberger

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Table 3
Percentage of Employees in Small Private Establishments Participating in Insurance Benefit Plans, 1990

<table>
<thead>
<tr>
<th>Benefit Plan</th>
<th>Full Time</th>
<th>Part Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Care</td>
<td>69%</td>
<td>6%</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>64</td>
<td>6</td>
</tr>
<tr>
<td>Dental Care</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>Sickness and Accident Insurance</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td>Long-Term Disability Insurance</td>
<td>19</td>
<td>a</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>42</td>
<td>10</td>
</tr>
</tbody>
</table>


aLess than 0.5 percent.
March 20 introduced a bill (S. 700) that would create two types of basic health insurance plans that insurance companies operating in the small group market would be required to offer. The proposal, however, would not include an employer mandate. Reps. Nancy Johnson (R-CT) and Rod Chandler (R-WA) introduced a bill (H.R. 1565) that would link the health care plan tax exclusion to managed care and create a basic health insurance plan that small employers would be required to offer but not necessarily pay for.

Chandler is also sponsoring legislation (H.R. 2453) that would assist small businesses to band together to form large purchasing groups. The groups, to be certified by the Department of Health and Human Services, would consist of no fewer than 100 employers having no more than 100 employees each. This proposal is modeled on the Council of Smaller Enterprises (COSE), a Cleveland, Ohio, group that includes 8,000 employers and covers more than 120,000 employees and their families by offering 12 group health care programs through 6 carriers. Approximately 20 percent of the employers participating in COSE state they would be unable to provide insurance without it.

The Health Insurance Association of America and Blue Cross/Blue Shield Association each have proposed plans that would guarantee coverage to all applicants regardless of health status, occupation, or geographic location and prohibit cancelation of policies for health reasons. Both proposals would also exempt small business policies from state mandates.

The American public is placing increasing importance on health insurance. In a survey conducted by EBRI and The Gallup Organization Inc., 65 percent of the respondents ranked health insurance as the most important employee benefit. Yet small private establishments are finding it difficult to satisfy this demand. With the costs of health care rising at a triple digit rate for some employers, the need for health care reform will continue to call for policymakers’ attention.

—Author, EBRI

Public Attitudes on Health Care Cost Inflation: Results From a New EBRI/Gallup Survey

A majority of Americans (57 percent) said greed, waste, paperwork, malpractice, high profits and other expenses contribute more to health care costs inflation than either new medical technologies or the health care needs of the growing number of elderly, according to a recent survey by EBRI and The Gallup Organization, Inc. Twenty-one percent of survey respondents said new medical technologies was the most important reason and 20 percent said the growing number of elderly was the top reason. Asked which one of the three was the least important reason, 41 percent of respondents listed the growing number of elderly, 28 percent said new medical technologies, and 27 percent listed greed, waste, paperwork, malpractice, high profits, and other expenses.

Earlier in the survey, 73 percent of all respondents cited malpractice suits against doctors and hospitals as either the most important or a major reason for the high rate of increase in health care costs. Sixty-six percent cited profits by private insurance companies as either the most important or a major reason while 64 percent cited doctors’ incomes, and 62 percent cited fraud in programs like Medicare and Medicaid. In addition, 61 percent cited profits for drug companies as the most important or a major reason for the increase in health care costs, 53 percent cited inefficiency and waste in hospitals and 52 percent cited paperwork required by insurance companies and the government.

Nearly one-half (47 percent) of survey respondents believe that the elderly population is more responsible than other population segments for increasing health care costs because of the growing number of elderly and because they typically require more health care than others. Fifty-one percent said the elderly are no more responsible for growing health care costs than others.

In addition, more than one-half of respondents (59 percent) said new medical technologies were driving up health care costs, while 38 percent of the respondents said new medical technologies were helping to save costs.

More than three-quarters (79 percent) of respondents said health care costs are rising faster than the inflation rate. Twenty-seven percent of respondents said the rate of increase for health care costs is three times the inflation rate and 52 percent said the increase was two times the inflation rate compared with 14 percent who said health care costs are increasing at the same rate as inflation and 1 percent who said the increase was lower than the inflation rate.

Health care costs are in fact increasing at about twice the inflation rate—from January 1989 to June 1991 health care prices increased 22.5 percent while the prices of all goods and services (Consumer Price Index) increased 12.3 percent.
“While one-half of the respondents realize that health care costs are increasing at twice the inflation rate, about one out-of-four think that health care inflation is increasing much more rapidly than it is,” said Salisbury. “This may be because more Americans are being asked to pay a greater share of their own health care with higher insurance deductibles and copayments as well as receiving lower reimbursements. Until recently, the third party payment system for health care has kept many Americans unaware of the true magnitude of health care costs,” Salisbury also said.

“An earlier EBRI/Gallup survey revealed that the majority of Americans are in fact satisfied with their own health care. This satisfaction combined with the fact that Americans believe health care costs are rising rapidly could mean Americans may not support a health care reform proposal that will increase their taxes,” Salisbury said.

The survey on health care cost inflation was conducted in June of this year and is the twenty-fifth in a series of nationwide public opinion surveys EBRI is undertaking on public attitudes toward economic security issues. The surveys are conducted monthly for EBRI by The Gallup Organization, Inc., which questions 1,000 Americans by telephone. The maximum expected error rate at the 95 percent confidence level is ±3 percent.


—Carolyn Piucci, EBRI

◆ Washington Update

Congress left town for its August recess with significant legislation still pending. Heightened activity concerning pension simplification, family leave, civil rights, unemployment compensation, and health care reform is expected from Labor Day to Thanksgiving. While Congress rested, regulators and state leaders continued to work on retirement and health care policy initiatives.

401(k) plans—The Internal Revenue Service (IRS) released final regulations Aug. 8 under section 401(k), concerning cash or deferred arrangements, and under section 401(m), concerning nondiscrimination rules for employee and matching contributions made to qualified plans. For the most part, the final regulations contain no great surprises. The final regulations prohibit plans from restructuring for purposes of the 401(k) actual deferral percentage (ADP) test or the 401(m) actual contribution percentage (ACP) test, effective for plan years beginning after Dec. 31, 1991. Plans may still be restructured based on employee groups through 1991. The regulations also address areas related to hardship distributions, plan termination distributions, collectively bargained plans, employee stock ownership plans, corrective distributions, and the definition of compensation.

Physician Payment Reform—In response to widespread protest from the medical community and lawmakers, the Health Care Financing Administration (HCFA) has agreed to modify its proposed new physician fee schedule. The American Medical Association and the Physician Payment Review Commission criticized HCFA’s proposal saying it would reduce average fee levels by at least 16 percent in the next five years and reduce overall payment to doctors by $8 billion or more annually by 1996. Critics say the HCFA proposal violates the agreement reached under the Omnibus Budget Reconciliation Act of 1989 (OBRA ’89), which provided that the fee schedule be revenue neutral and not affect overall Medicare spending.

Health Care Reform—The National Governors Association (NGA) unanimously adopted a health care policy Aug. 20 that calls for “a system that makes health care affordable and available for all Americans, “ and that has “sufficient controls in place to ensure the cost-effective delivery of care.” The policy emphasizes reform beginning in the states with appropriate waivers from the federal government to restructure Medicaid. The policy calls for state reform of the health insurance market, reform of the medical tort system, and experimentation among the states on cost control and expanding access to health care. The policy was adopted at NGA’s summer meeting, at which health care was the dominant issue.

—Nora Super Jones, EBRI

◆ New Publications

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