Benefits Are a Substantial Component of Total Compensation

Introduction
Benefits represent a significant share of employer costs for employee compensation. In March 1995, wages and salaries averaged 71.6 percent of employer costs for employee compensation, while benefit costs averaged 28.4 percent (table 1). Included in the 28.4 percent in benefit costs: 6.4 percent of compensation was in the form of paid leave, 6.7 percent was for insurance costs, 3.0 percent was for retirement and savings costs, and 9.3 percent was in the form of legally required benefits.¹

However, the cost of benefits has been changing. Between 1987 and 1993, employer costs for total compensation rose at an average annual rate of 3.7 percent. The benefit component of total compensation accounted for the major part of the growth, increasing at an average annual rate of 5.7 percent, compared with 3.3 percent average annual growth rate for wages and salaries. The growth in benefit costs was fueled primarily by insurance costs, reflecting the rising costs of health care to businesses. Between 1987 and 1993, insurance benefit costs increased at an average annual rate of 8.7 percent. However, in recent years, due to a decrease in the growth of benefit costs, the growth in employer costs for total compensation has been slowing. Compensation costs rose only 2.9 percent in the year ended in March 1995. The benefit component of total compensation is now growing at a slower rate than the wages and salaries component. Benefit costs grew at an annual rate of only 2.8 percent in the year ended in March 1995, compared with a 3.0 percent growth rate for wages and salaries. The decrease in the growth of benefit costs can be attributed to smaller increases in health care costs, workers’ compensation, state unemployment insurance costs, and employers’ payments to retirement funds.²

This article examines employer costs for total compensation and the portion of total compensation attributable to both benefits and wages and salaries.³ It includes information about total compensation costs by industry, occupation, establishment size, union status, private and public sector, and part- and full-time work status—characteristics that are important predictors of an employer’s total compensation costs.⁴

Industry
- Goods producing industries generally had higher costs for employee compensation than service producing industries in March 1995. Total compensation in goods producing industries was $20.75 per hour worked, while in service producing industries total compensation was $15.88 per hour worked (table 1).
- Goods producing industries provided their employees with benefits as a greater portion of compensation than service producing industries. In the goods producing industry, benefits....
Table 1  
Employer Costs per Hour Worked for Employee Compensation and Costs as a Percentage of Total Compensation, by Industry Category and Establishment Size, March 1995

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Compensation Cost per Hour Worked</th>
<th>Wages and Salaries</th>
<th>Total Benefits</th>
<th>Paid Leave Benefits</th>
<th>Supplemental Pay Benefits</th>
<th>Retirement Benefits</th>
<th>Legally Required Benefits</th>
<th>Other Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>$17.10</td>
<td>100.0%</td>
<td>71.6%</td>
<td>28.4%</td>
<td>6.4%</td>
<td>2.8%</td>
<td>6.7%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Goods producing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>construction</td>
<td>20.75</td>
<td>100.0</td>
<td>67.3</td>
<td>32.7</td>
<td>6.6</td>
<td>3.7</td>
<td>8.0</td>
<td>4.0</td>
</tr>
<tr>
<td>manufacturing</td>
<td>20.47</td>
<td>100.0</td>
<td>67.0</td>
<td>33.0</td>
<td>7.5</td>
<td>3.9</td>
<td>8.4</td>
<td>3.7</td>
</tr>
<tr>
<td>durable goods</td>
<td>22.29</td>
<td>100.0</td>
<td>65.7</td>
<td>34.3</td>
<td>7.6</td>
<td>4.3</td>
<td>9.0</td>
<td>3.9</td>
</tr>
<tr>
<td>nondurable goods</td>
<td>17.99</td>
<td>100.0</td>
<td>69.4</td>
<td>30.6</td>
<td>7.4</td>
<td>3.3</td>
<td>7.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Service producing</td>
<td>15.88</td>
<td>100.0</td>
<td>73.5</td>
<td>26.5</td>
<td>8.3</td>
<td>2.3</td>
<td>6.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Transportation and public utilities</td>
<td>23.24</td>
<td>100.0</td>
<td>68.5</td>
<td>31.5</td>
<td>7.6</td>
<td>2.5</td>
<td>8.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>16.60</td>
<td>100.0</td>
<td>72.8</td>
<td>27.2</td>
<td>6.2</td>
<td>2.6</td>
<td>6.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Retail trade</td>
<td>9.32</td>
<td>100.0</td>
<td>78.3</td>
<td>22.7</td>
<td>6.1</td>
<td>1.6</td>
<td>3.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Finance, insurance, and services</td>
<td>21.39</td>
<td>100.0</td>
<td>70.8</td>
<td>29.2</td>
<td>7.2</td>
<td>4.2</td>
<td>6.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Establishment Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1–99 workers</td>
<td>14.58</td>
<td>100.0</td>
<td>74.1</td>
<td>25.9</td>
<td>5.3</td>
<td>2.4</td>
<td>5.7</td>
<td>2.3</td>
</tr>
<tr>
<td>100–499 workers</td>
<td>16.30</td>
<td>100.0</td>
<td>71.3</td>
<td>28.7</td>
<td>6.2</td>
<td>3.1</td>
<td>7.0</td>
<td>2.9</td>
</tr>
<tr>
<td>500 or more workers</td>
<td>22.85</td>
<td>100.0</td>
<td>68.8</td>
<td>31.2</td>
<td>7.9</td>
<td>2.9</td>
<td>7.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>


a Includes vacation, holidays, sick leave, and other leave.
b Includes premium pay, shift pay, and nonproduction bonuses.
c Includes life insurance, health insurance, and sickness and accident insurance.
d Includes pensions and savings and thrifts.
e Includes Social Security, federal unemployment insurance, state unemployment insurance, and workers’ compensation.
f Includes severance pay and supplemental unemployment benefits.
g Service industries include personal services (barber shop), business service (photocopy shop), and health service (hospital).
h Cost per hour worked is $0.01 or less.

Variation in total compensation costs per hour worked was low among the different industry groups in goods producing industries, ranging from $17.99 in nondurable goods manufacturing to $22.29 in durable goods manufacturing. There was also generally little variation among the components of total compensation, with the exception of legally required benefits. Employers devoted approximately 9 percent of total compensation costs to legally required benefits in all goods producing industries except construction industries, where legally required benefits accounted for close to 14 percent of total compensation costs (calculated from table 1).

The service producing industries experienced greater variation in total compensation costs per hour worked, ranging from $9.32 in retail trade to $23.24 in transportation and public utilities (table 1). Retail trade had the lowest percentage of total compensation costs devoted to benefits (21.7 percent). Legally required benefits represented the largest benefit cost for all service producing industries.

Establishment Size

- Total compensation costs per hour worked increases as establishment size increases. In March 1995, establishments with 1–99 workers were compensated $14.58 per hour worked, compared with $16.30 per hour worked and $22.85 per hour worked for establishments with 100–499 workers and 500 or more workers, respectively.
- As establishment size increases, the amount spent on wages and salaries as a percentage of total compensation decreases (table 1). In March 1995, 74.1 percent of employee compensation was in the form of wages and salaries for employers with 1–99 workers,
Table 2
Comparison of Total Compensation Costs, per Hour Worked and as a Percentage of Total Compensation for Private Industry, State and Local Governments, and the Federal Government, 1993

<table>
<thead>
<tr>
<th>Compensation Component</th>
<th>Private Industry</th>
<th>State and Local Governments</th>
<th>Federal Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Compensation ($)</td>
<td>16.70</td>
<td>24.44</td>
<td>24.04</td>
</tr>
<tr>
<td>(percentage)</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Wages and salaries ($)</td>
<td>11.90</td>
<td>17.00</td>
<td>13.57</td>
</tr>
<tr>
<td>71.3%</td>
<td>69.6%</td>
<td>56.4%</td>
<td></td>
</tr>
<tr>
<td>Total benefits ($)</td>
<td>4.80</td>
<td>7.44</td>
<td>10.47</td>
</tr>
<tr>
<td>(percentage)</td>
<td>28.7%</td>
<td>30.4%</td>
<td>43.6%</td>
</tr>
<tr>
<td>paid leave a ($/hour)</td>
<td>1.11</td>
<td>1.86</td>
<td>2.46</td>
</tr>
<tr>
<td>6.6%</td>
<td>7.6%</td>
<td>10.2%</td>
<td></td>
</tr>
<tr>
<td>supplemental pay b ($)</td>
<td>0.42</td>
<td>0.21</td>
<td>1.53</td>
</tr>
<tr>
<td>2.5%</td>
<td>0.9%</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>insurance c ($)</td>
<td>1.19</td>
<td>2.02</td>
<td>1.90</td>
</tr>
<tr>
<td>7.2%</td>
<td>8.3%</td>
<td>7.9%</td>
<td></td>
</tr>
<tr>
<td>retirement and savings d (%)</td>
<td>0.48</td>
<td>1.87</td>
<td>1.64</td>
</tr>
<tr>
<td>2.9%</td>
<td>7.6%</td>
<td>6.8%</td>
<td></td>
</tr>
<tr>
<td>retirement (U.S. Treasury)</td>
<td>e</td>
<td>e</td>
<td>1.04</td>
</tr>
<tr>
<td>legally required benefits e</td>
<td>1.55</td>
<td>1.44</td>
<td>1.00</td>
</tr>
<tr>
<td>9.3%</td>
<td>5.9%</td>
<td>4.2%</td>
<td></td>
</tr>
<tr>
<td>postal unfunded liability g</td>
<td>g</td>
<td>g</td>
<td>0.62</td>
</tr>
<tr>
<td>other benefits g</td>
<td>0.04</td>
<td>0.03</td>
<td>0.28</td>
</tr>
<tr>
<td>0.2%</td>
<td>0.1%</td>
<td>1.2%</td>
<td></td>
</tr>
</tbody>
</table>


aIncludes vacation, holidays, sick leave, and other leave.
bIncludes premium pay, shift pay, and nonproduction bonuses.
cIncludes life insurance, health insurance, and sickness and accident insurance.
dIncludes pensions and savings and thrift.
eNot applicable.
fIncludes Social Security, federal unemployment, state unemployment, and workers’ compensation.
gIncludes severance pay and supplemental unemployment benefits.

compared with 71.3 percent and 68.8 percent for employers with 100–499 and 500 or more workers, respectively.

• As establishment size increases, the amount spent on benefits as a percentage of total employee compensation increases (table 1). In March 1995, for employers with 1–99 workers, 5.3 percent, 5.7 percent, and 2.3 percent of compensation was in the form of paid leave, insurance, and retirement and savings, respectively, compared with 6.2 percent, 7.0 percent, and 2.9 percent of compensation for employers with 100–499 workers. In establishments with 500 or more workers, 7.9 percent, 7.9 percent, and 4.0 percent of compensation was in the form of paid leave, insurance, and retirement and savings, respectively.

Private and Public Sector

• Total compensation costs per hour worked are significantly higher in the public sector than in the private sector. In 1993, federal and state and local workers received over $24.00 per hour worked for total compensation, compared with $16.70 per hour worked for private-sector employees (table 2).

Union Status

• The wages and salaries compensation component is a smaller percentage of total compensation for union employers than for nonunion employers (table 3). Wages and salaries averaged 64.3 percent of employer costs for union employee compensation, compared with 73.2 percent for nonunion employers in March 1995.

• Paid leave, insurance, and retirement and savings made up 6.9 percent, 10.0 percent, and 5.1 percent of total compensation for union employers, compared with 6.3 percent, 6.0 percent, and 2.6 percent for nonunion employers (table 3).

Full-Time and Part-Time Status

• Total compensation costs for part-time workers in private industry are less than one-half of total compensation costs for full-time workers. In March 1995, total
compensation costs for full-time workers in private industry were $19.44 per hour, compared with $8.98 for part-time workers (table 3).

- In March 1995, wages and salaries averaged 70.5 percent of employer costs for employee compensation for full-time workers, compared with 79.9 percent for part-time workers.
- Benefits averaged 20.1 percent of employer costs for employee compensation for part-time workers in March 1995. Legally required benefits represented 11.4 percent of total compensation for part-time workers, leaving less than 9 percent for other benefit costs (table 3).

—Edina Rheem and Ken McDonnell, EBRI

Endnotes

1 Legally required benefits include Social Security, federal unemployment insurance, state unemployment insurance, and workers' compensation.
4 Employer Costs for Employee Compensation counts cash benefits (i.e., overtime, paid leave, nonproduction bonuses, etc.) as benefits rather than as wages and salaries.
Health Care Cost Management Strategies Among Small and Mid-Size Firms, 1995

To control health care costs, employers are adopting a wide range of cost management strategies. These strategies appear to be having positive results. According to a KPMG Peat Marwick survey, the rate of increase in health plan premiums for all plan types has steadily decreased from 11.5 percent in 1991 to 2.1 percent in 1995.5

Alternative Delivery Systems

One of the more common cost management strategies adopted by small and mid-sized firms is offering a managed care plan, according to data from the National Institute of Business Management (NIBM).6 The percentage of these firms offering a managed care hospital coverage health plan—health maintenance organization (HMO), preferred provider organization (PPO), or point-of-service plan (POS)—increased from 37 percent in 1990 to 70 percent in 1995 (chart 2). Among the managed care plans, PPOs have gained the most in popularity, with firms’ use of these plans increasing from 12 percent in 1990 to 32 percent in 1995 (table 4). An interesting result of the surveys was the decline in the percentage of small and mid-size firms that self-insure their hospital plans, which appears to go against the trend seen among large firms.

Utilization Review

Utilization review (UR) covers a broad range of programs used to monitor the progress and appropriateness of care on a case-by-case basis and limit the volume of health care services. Nearly all managed care plans subject member providers to some form of UR. In fee-for-service plans, more plan documents are requiring that patients use some form of UR. Among firms surveyed by NIBM, the most prevalent forms of UR in 1995 were second opinion and preadmission testing, each used by 27 percent of firms (table 5).

Wellness Programs

It is well known that healthy people are inexpensive to insure. Also, that preventive health care measures and early intervention in the treatment of an ailment are the most cost effective strategies in the long run. For these reasons, many employers are adopting wellness programs for their employees. Sometimes employers offer incentives to employees to utilize these programs. However, incentives for utilization of wellness programs must be developed with caution to ensure that they do not discriminate against individuals with disabilities. The most popular wellness/preventive care program adopted by surveyed employers was well-baby care, which was offered by 19 percent of employers in 1995 (table 5).

Alternative Sites of Care

To avoid costly hospital stays, many employers have adopted measures that encourage employees to seek care at alternative sites. Among the more popular of these strategies are out-patient care (17 percent), home health care (12 percent), and hospice care (12 percent) (table 5). Alternative sites may be best suited to treating individuals with chronic ailments that do not require 24-hour care and monitoring or caring for terminally ill patients.

Conclusion

The recent downward trend in employer health care costs can be attributed to many factors. Cost management strategies initiated by employers have had an impact, but employers should also be aware of other factors that have contributed to this trend that are beyond an
employer's control. Primary among these reasons is inflation. Health care costs are rising at an all-time low rate: 4.7 percent in 1994. This rate coincides with a low rate of increase in overall inflation of 2.6 percent in 1994. An increase in inflation could send health care costs rising at a faster rate.

To obtain a copy of the National Institute of Business Management’s Employee Benefit Survey, 1995, contact: National Institute of Business Management, Inc., P.O. Box 1499, Alexandria, VA 22313-2099. A single copy of the survey costs $250, plus $3.50 for postage and handling. Credit card customers may call (800) 248-6426.

—Ken McDonnell, EBRI

### Table 5

<table>
<thead>
<tr>
<th>Percentage of Firms Using Various Health Care Cost Management Strategies by Type of Strategy, 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Management Strategy</td>
</tr>
<tr>
<td>Plan Administration</td>
</tr>
<tr>
<td>Coordination of benefits</td>
</tr>
<tr>
<td>Utilization Review</td>
</tr>
<tr>
<td>Second opinion</td>
</tr>
<tr>
<td>Preadmission testing</td>
</tr>
<tr>
<td>Utilization review</td>
</tr>
<tr>
<td>Claims audit</td>
</tr>
<tr>
<td>Wellness/Preventive Care Programs</td>
</tr>
<tr>
<td>Well-baby care</td>
</tr>
<tr>
<td>Company-paid physicals</td>
</tr>
<tr>
<td>Drug/alcohol counseling</td>
</tr>
<tr>
<td>Immunization/inoculation coverage</td>
</tr>
<tr>
<td>Smoking cessation program</td>
</tr>
<tr>
<td>Health club membership</td>
</tr>
<tr>
<td>Hypertension screening</td>
</tr>
<tr>
<td>On-site fitness facility</td>
</tr>
<tr>
<td>Alternate Care Facilities</td>
</tr>
<tr>
<td>Out-patient care</td>
</tr>
<tr>
<td>Home health care</td>
</tr>
<tr>
<td>Hospice care</td>
</tr>
<tr>
<td>Emergency care center</td>
</tr>
</tbody>
</table>

EBRI in Focus

EBRI Hosted Successful Policy Forum Dec. 7

EBRI’s Dec. 7, 1995 policy forum, “The Changing World of Work and Employee Benefits,” was a stimulating discussion of demographic, economic, and work force change as well as employer change in approach and attitude to workers and the provision of employee benefits. Public policy implications were also explored.

EBRI President Dallas Salisbury opened the forum with a “big-picture” statistical overview, putting conventional wisdom into context against actual data. Futurist and author Jeremy Rifkin then provided an assessment of “The Changing Nature of Work,” based on his recent book, *The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era*. Rifkin’s work had also been part of EBRI’s second policy forum held in 1979 on social investments, the subject of his 1978 book on pension fund investment in the economy.

Cassandra Carr, senior vice president of human resources at SBC Communications, Steve Harrison, director of compensation and benefits at E.I. Du Pont du Nemours & Co., and Chuck Mazza, vice president of human resources at the Mead Corp., presented case studies of “Changes in the Employment Climate” based on major changes that have occurred at each of their organizations as a result of environmental change.

The final panel was made up of two life-long veterans of human resources and employee benefits consulting. Robert Paul, recently retired chairman of The Segal Company, and Tom Paine, recently retired partner of Hewitt Associates, provided insights on “The Future of the World of Work” and its implications for economic security, public policy, and the employment role in the provision of employee benefit security.

Commentary was provided at each stage of the forum by a panel of discussants that included David Skovron, retired from Kwasha Lipton; Howard Fluhr, President and CEO of The Segal Company; Martin Zuckerman, executive vice president at Chemical Bank; and Fred Foulkes, Boston University, School of Management. Throughout the forum there was active discussion among participants from business, labor, academia, the media, and government.

The policy forum proceedings will be turned into an *EBRI Issue Brief/Special Report* edited by EBRI President Dallas Salisbury and a feature article for *EBRI Notes* written by EBRI Fellow Chris Conte. The publications will be used to educate policymakers and the media on changes taking place that should be considered in the public policy process as issues related to employee benefits programs are considered.

EBRI Board of Trustees Met Dec. 6

The EBRI Board of Trustees met on Dec. 6 in Washington, DC, to review the state of the Institute and to establish program and budget priorities for 1996.

The Board reviewed the results of research on participant education in defined contribution plans, hybrid retirement plan trends, health insurance coverage, retirement confidence of workers and retirees, and EBRI initiatives in the area of savings education of the general public.

The Board reviewed the results of “satisfaction and opinion” interviews with over one-half of EBRI members and engaged in break-out and group discussions on future directions for the Institute. The Board reaffirmed the mission of the organization: “To enhance economic security through the efficient combination of public and private programs and to provide a basis for the development of effective and responsible public policy for employee benefits.” The Board concluded that the financial challenges faced by Medicare, Social Security, public and private employee benefit programs, and individuals in dealing with the changing environment of work and the changing structure of employee benefit programs, make the work of EBRI all the more important to policymakers. Objective data and perspective will be more important than ever as the nation focuses on the potentially conflicting challenges of being competitive while seeking to create jobs and increase real income.
while allowing a growing elderly population to enjoy a period of dignified retirement. Public policy will play a crucial role in determining whether the flexibility exists within the economy to meet these challenges.

The Board approved research and education initiatives on:

- defined benefit retirement plan trends and the effects of public policy on the future of these programs;
- defined contribution plan trends, with a particular focus on participant education;
- public and retiree confidence related to health care and income and the match, or lack thereof, of opinion versus action;
- savings education, including expansion of the American Savings Education Council and extensive dissemination of information aimed at helping policymakers and the public understand why Americans need to save more if they are to deal with periods out of the labor force, whether during a career or as retirement;
- the changing work force, workplace, and employee benefits as well as the implications of alternative public policies for workers’ ability to achieve economic security in this dynamic environment;
- retiree health care financing and the implications of public- and private-sector program adjustments;
- surveys on the value of benefits, work family benefits, and flexible benefits, to continue the longitudinal data series begun in 1990;
- assessments of tax reform proposals’ implications for employee benefits and economic security;
- monthly briefings of public policymakers and the media on both the basics of pension and health plans and the results of studies, as completed.

This research and education program will allow EBRI to maintain its position as the preeminent public policy research organization in the nation on employee benefits and as the source for policymakers and the media of information on employee benefits and the implications of public policy proposals for employee benefit plans and participants.

Defined Contribution Report Released Dec. 6

The results of the report from EBRI's Defined Contribution Project, sponsored by the Department of Labor, Securities and Exchange Commission, and other private organizations, were released at a press briefing on Dec. 6 at the National Press Club in Washington, DC. Findings from surveys of plan sponsors, plan service providers, and plan participants regarding educational material provided to participants by the plans and the potential impact of that material were discussed. The report will also be published as the January 1996 EBRI Issue Brief.

Also on Dec. 6, Paul Yakoboski assumed the role of project director for the Defined Contribution Project and will oversee the research aspect of the project with guidance from EBRI Fellow Jack VanDerhei. Deborah Milne will continue to coordinate the Defined Contribution Advisory Committee and fundraising for the project.

For more information on ongoing research, contact Paul Yakoboski at (202) 775-6329. For information on participating on the project’s advisory board, contact Deborah Milne at (202) 775-6361.

Hybrid Retirement Plan Research Enters Review Stage

A draft of the EBRI Issue Brief on hybrid retirement plans has been circulated for internal and external review. The Issue Brief on hybrid retirement plans (to be released in early 1996) will contain key findings and highlights of the surveys, with a full report of the survey results to follow at a later date. Contact Sharyn Campbell at (202) 775-6330 with any questions.

EBRI Prepares Report on 1994 Health Insurance Coverage

Work is underway on EBRI's annual report on Sources of Health Insurance and Characteristics of the Uninsured. The data for this report come from the recently released March 1995 Current Population Survey, conducted by the U.S. Bureau of the Census. Key findings from EBRI's tabulations of this survey will be published in an article to appear in the January 1996 EBRI Notes, and a more detailed report will be published as an EBRI Issue.
Brief. In addition, EBRI-ERF will host an educational briefing on the uninsured research in early 1996. For more information about this research project, contact Paul Fronstin, (202) 775-6352.

**EBRI/Greenwald Retirement Confidence Survey**

Interest in the 1995 survey results remains high following the Oct. 30 press conference. To date, we know that articles about the survey have appeared in USA Today, Ft. Lauderdale Sun Sentinel, and Pensions & Investments. Also, the survey results will be included as part of the EBRI-ERF Educational Briefing about participant education in defined contribution plans on Dec. 15. Plans are underway for the 1996 survey, and organizations interested in signing on as sponsors of next year’s survey can contact Paul Yakoboski at (202) 775-6329 or Deborah Milne at (202) 775-6361.

**ASEC Establishes Committees, Hires Senior Adviser**

The American Savings Education Council (ASEC) has formed committees on which ASEC partners will be asked to serve in order to coordinate the many initiatives the council intends to undertake. These committees include public relations, seminars/speaking engagements, materials development, research, information technology, and development. In addition, ASEC is pleased to announce that Don Blandin has agreed to a trial contract through Dec. 31 to assess ASEC’s needs and work with the steering committee on the day-to-day activities of the council.

ASEC also played a role in the Dec. 6 EBRI press conference to release its report on participant education in participant-directed defined contribution plans. At the conference, Kathy Stokes Murray spoke on behalf of ASEC and commented how this type of research ties in with ASEC’s activities.

**EBRI’s Marketing Research Continues Progress**

The interviews of representatives from the media and government are going well. We are under way with the planning of a detailed evaluation of EBRI’s publications, particularly a redesign of QPIR. This evaluation process will include an examination of how to get more people to read all of our publications. We are also working to get feedback from individuals at companies that are not members of EBRI but “should” be. We want to learn the best way to convince them to sponsor EBRI’s activities.

The next phase of the marketing research project will include evaluating EBRI’s presence on the Internet.

**Presentations**—On Dec. 8, EBRI President Dallas Salisbury gave a public policy update on employee benefit issues to Actuarial Science Associates, Inc. in Somerset, NJ.

On Nov. 20, Paul Fronstin presented a paper to the Southern Economic Association in New Orleans. The title of his paper was “An Analysis of the Decline in Private Health Insurance Coverage Between 1988 and 1992.”

**EBRI Mentions**

EBRI continues to be cited in various and sundry newspapers, magazines, and trade publications. A database search of 53 major daily newspapers in the United States found that between Jan. 1, 1995 and Nov. 22, 1995 there were 227 EBRI mentions in these newspapers. Selected EBRI mentions for the month of November include:

- A Nov. 2 USA Today article on individual retirement accounts quoted Dallas Salisbury.
- A Nov. 5 Washington Post article on Medicare cuts quoted Dallas Salisbury.
- In the Nov. 13 issue of Pensions & Investments, an article about defined contribution plan asset allocations cited EBRI data on rates of return in DC plans.
- A Nov. 19 column by Jane Bryant Quinn about 401(k) plan reforms cited Paul Yakoboski on contribution rates in these plans.
- A Nov. 23 Washington Post article about businesses tapping 401(k) plans cited EBRI data on pension plan assets.
New Publications

[Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications, call (202) 512-2470. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809].

A. Foster Higgins and Company, Inc.

Mid-Sized Employer Health Plans. $100. A. Foster Higgins and Company, Inc., 125 Broad Street, New York, NY 10004, (212) 574-9025.

American Compensation Association.

(1) Compensating Globally Mobile Employees: Approaches to Developing Expatriate Pay Strategies for the Evolving International Corporation. ACA member, $19.95; nonmember, $24.95. (2) Managing Retirement Assets. ACA member, $19.95; nonmember, $24.95. American Compensation Association, P.O. Box 29312, Phoenix, AZ 85038-9312, (602) 922-2076.


Blair, Margaret. Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century. Cloth, $42.95; paper, $18.95. The Brookings Institution, 1775 Massachusetts Avenue, NW, Washington, DC 20036-2188, (202) 797-6258.


Silow-Carroll, Sharon, Jack A. Meyer, Marsha Regenstein, and Nancy Bagby. In Sickness and In Health? The Marriage Between Employers and Health Care. Free. The Economic and Social Research Institute, 1015 18th Street, Suite


U.S. Congress. Senate Committee on Finance. Long-Term Care and Drug Benefits under Health Care Reform. Order from GPO.


The Employee Benefit Research Institute (EBRI) is a nonprofit, nonpartisan public policy research organization based in Washington, DC. Established in 1978, EBRI provides educational and research materials to employers, employees, retired workers, public officials, members of the press, academics, and the general public. The Employee Benefit Research Institute Education and Research Fund (EBRI-ERF) is a nonprofit, nonpartisan education and research organization established by EBRI in 1979. EBRI-ERF produces and distributes a wide range of educational publications concerning health, welfare, and retirement policies. Through its books, policy forums, and monthly subscription service, EBRI-ERF contributes to the formulation of effective and responsible health, welfare, and retirement policies. EBRI and EBRI-ERF have—and seek—a broad base of support among interested individuals and organizations with interests in employee benefits education, research, and public policy.

**EBRI Issue Briefs** provide expert evaluations of employee benefit issues and trends, as well as critical analyses of employee benefit policies and proposals. **EBRI Notes** provides up-to-date information on a variety of employee benefit topics. **EBRI’s Benefit Outlook** provides a comprehensive legislative bill chart coupled with observations on the likelihood for passage of employee benefits-related legislation. **EBRI’s Quarterly Pension Investment Report (QPIR)** provides historical data on net contributions to pension plans and investment allocation by plan type, total plan assets and their investment mix by plan type, and short- and long-term earnings. **EBRI’s Washington Bulletin** provides sponsors with short, timely updates on major developments in Washington in employee benefits.

EBRI also publishes EBRI/Gallup public opinion surveys, special reports, studies, and books.

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**Washington Update**

Note to readers: This month’s *Washington Update* is separate from the rest of *EBRI Notes* so that we could include the most up-to-date information possible on a host of benefits issues moving through Congress in the budget reconciliation bill. This is one more way EBRI is striving to meet the needs and expectations of its members. (Note: This information is current as of Monday, Dec. 18, 1995).

**Participant Education**—The Department of Labor’s Pension and Welfare Benefits Administration (PWBA) Dec. 8 released a draft version of an interpretive bulletin (IB) on the provision of investment-related information in participant-directed individual account pension plans. The IB is intended to clarify the application of ERISA’s definition of the term *fiduciary with respect to a plan* as it applies to the provision of investment-related information to participants and beneficiaries in employment-based pension plans. The IB identifies a range of materials and information that may not constitute “investment advice” under the ERISA definition of fiduciary. The IB points out safe harbors under ERISA for plan sponsors and service providers that provide one or more of the following types of investment information and materials—plan information, general financial and investment information, asset allocation models, and/or interactive investment materials.

**Outlook:** Interpretive Bulletins normally are not subject to comment periods; however, Assistant Secretary of Labor for PWBA, Olena Berg, has promised a public comment process to increase the likelihood that this IB will lead to increased participant education efforts by plan sponsors and service providers. If reaction to the IB is that it would not help expand investment education, then further work prior to final publication is anticipated. Comments will be accepted for 30 days.

**Federal Budget**—President Clinton vetoed the seven-year balanced budget reconciliation package (H.R. 2491) Dec. 6 and submitted his own seven-year plan Dec. 7, which several congressional Republican negotiators deemed “dead on arrival.” (*Notes*, 11/95). Meanwhile, the Congressional Budget Office released a set of new economic assumptions Dec. 11, indicating that Congress now has $135 billion more with which to work in order to balance the budget over seven years. The new assumptions narrow the gap between the Clinton plan and H.R. 2491 to $265 billion, but do nothing to narrow the gap over ideological differences.

The administration’s proposal would increase the minimum wage to $5.15 by mid-1997; seeks $124 billion in savings from the Medicare program (H.R. 2491 seeks $265 billion in savings); provides increased plan choice to Medicare beneficiaries (but does not permit Medicare medical savings accounts); includes provisions for the expansion of individual retirement accounts very similar to the provisions in H.R. 2491; and includes provisions similar to those in H.R. 2491 to continue the current delay in cost-of-living adjustments of federal retiree benefits and to bring pension plan contribution rates of members of Congress and their staffs in line with the rates of rank-and-file federal employees (see below). The plan also includes a provision similar to that found in H.R. 2491 with respect to corporate-owned life insurance. Unlike H.R. 2491, the administration’s proposal includes a number of health insurance reform provisions (see below).

Because of the continuing stand-off between congressional Republicans and the administration over details of how to achieve a balanced budget over seven years, a partial government shutdown began again as the Dec. 15 deadline of a second continuing resolution expired. The first shutdown lasted six days (*Notes*, 11/95). Continuing resolutions have been necessary since fiscal year 1996 began Oct. 1 in the absence of enactment of a number of appropriations bills that are needed to allocate funds for government agencies to function. To date, only 7 of 13 appropriations bills have been enacted.
Outlook: Missing from the new Clinton balanced budget plan are several benefits issues contained in H.R. 2491, including pension simplification and the establishment of a new type of simplified retirement plan for small employers (which the administration is on record as strongly supporting), reinstatement and extension of the tax exclusion for employer-provided educational assistance (however, the plan does include a provision to allow individuals with up to $70,000 in adjusted gross income to deduct up to $10,000 per year for qualified higher education expenses), the provision to permit corporate pension asset reversions to be used for ERISA-protected benefits, clarification of the tax treatment of long-term care insurance (the plan does establish a new program to grant states funds to expand home and community-based care for the aged and disabled), and the establishment of medical savings accounts. If the negotiation process between Congress and the administration on a new balanced budget package is ultimately successful, many of these issues could be brought back into the fold.

Health Reform—The most recent balanced budget proposal to come from the Clinton administration includes health reform provisions including a proposal to bar insurers and self-insured employer plans from establishing caps on benefits for specific diseases or medical conditions and from establishing lifetime limits on total benefit payments. Other health reform provisions for the group market would limit preexisting condition exclusions to 12 months (exclusions could only be imposed for conditions diagnosed or treated within six months of enrollment); prohibit plans from imposing new preexisting condition exclusions for new enrollees; require insurers to make coverage available to all eligible groups; and require insurers to renew coverage regardless of any group member’s health status. With regard to the individual market, insurers would be required to offer coverage to persons who were insured over the previous 12 months, lost previous coverage due to change in employment, marital, or residential status, and apply for individual coverage within 60 days of losing their previous coverage. The proposal would encourage the creation of purchasing cooperatives and permit states to request that federal employee health benefit plans (FEHBP) be made available to small businesses. It also would establish a capped entitlement program of health insurance for the temporarily unemployed. The plan also calls for the establishment of federal standards and data elements for electronic health information transactions. The plan also includes a provision to gradually increase the tax deduction for health costs of the self-employed to 50 percent by the year 2000.

Outlook: Several of these provisions are similar to those contained in S. 1028, which was unanimously approved by the Senate Labor and Human Resources Committee Aug. 2 (Notes, 11/95). An amendment expected by Sen. Jim Jeffords (R-VT) would bar the establishment of lifetime limits. Because of that and some other promised amendments when S. 1028 reaches the floor, the bill has been stalled and is not expected to be brought up until early next year. Because none of the administration’s health reform provisions were found in the budget reconciliation package (H.R. 2491) approved by Congress (with the exception of the increase of the tax deduction for the health costs of the self-employed), they may not be acceptable to federal lawmakers as they negotiate a compromise budget package.

Social Security Earnings Limit—The House Dec. 5 passed a bill (H.R. 2684) to increase the amount of money individuals aged 65–69 could earn before their Social Security benefits are reduced. The Ways and Means Committee approved the bill Nov. 30. The legislation would raise the earnings limit to $30,000 a year by 2002, up from the current limit of $11,280. Seniors now lose one dollar in benefits for every three dollars earned over that amount. The cost of the package is estimated to run $7 billion over seven years. A proposed offset would change the way benefits are computed for Social Security recipients who are retired and then resume work. Under present law, those beneficiaries’ earnings are added to their lifetime earnings record which results in a higher benefit the next year. Under
H.R. 2684, those workers would have to wait an extra year for the increase. The bill would also deny disability benefits to persons whose disability stems from drug addiction or alcoholism and would retain the current law earnings limit for the blind disabled.

**Outlook:** The Senate Finance Committee passed a bill (S. 1470) similar to the House-passed version Dec. 14. The primary difference between the two bills is the inclusion in the Senate version of a provision that would bar the Treasury secretary or other federal officials from disinvesting or underinvesting the Social Security trust funds. This provision stems from Treasury Secretary Robert Rubin’s maneuvering last month to avoid a federal government default by disinvesting federal employee pension plans. The bill’s provision is intended to ensure that Secretary Rubin could not tap the Social Security trust funds for the same purpose, when the Treasury again reaches its debt ceiling in the coming months. As for liberalizing the earnings limit, it is unclear whether the president would sign or veto such a measure.

**Federal Employee Benefits—**

Contained in the budget package (H.R. 2491) are several provisions dealing with the federal civilian retirement system. Employees participating in both the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) would be required to contribute an additional .25 percent in 1996, an additional .15 percent in 1997, and an additional .10 percent in 1998. The increase would then remain constant at .5 percent through 2002. All federal agencies (except the U.S. Postal Service) would be required to contribute an additional 1.51 percent each year above what the agency is currently contributing for employees in CSRS. Federal agencies would be prohibited from reducing their contributions to FERS. The package also includes a provision to bring contribution rates of lawmakers and their staffs in line with rank-and-file federal workers. Also included in the package is a provision to continue the delay in payment of federal retiree cost-of-living adjustments (COLAs) to April of each year through fiscal year 2002. The 1993 budget reconciliation act included a provision to delay the COLAs for retirees from January to April until 1996.

**Outlook:** President Clinton’s new seven year balanced budget plan includes provisions to bring the contribution rates for members of Congress and their staffs in line with federal workers and to delay COLA payments. He has stated his opposition to the proposal that increases employee retirement contributions or agency contributions under CSRS. It remains to be seen which of these federal employee benefits provisions may remain in a final plan if one is enacted. The package of reforms in H.R. 2491 is scored as saving approximately $10 billion over seven years, so there will likely be revenue pressure to retain the proposals President Clinton opposes.

**ERISA Court Action—**A bill (S. 1101) awaiting action by the Senate Judiciary Committee contains a provision to eliminate federal court removal jurisdiction over actions filed in state court under sec. 502(a)(1)(B) of the Employee Retirement Income Security Act (ERISA). Civil action under this section can be taken by a participant or beneficiary of an ERISA-governed employee benefit plan to recover benefits due under the terms of the plan, enforce his or her rights under the terms of the plan, and clarify his or her rights to future benefits under the terms of the plan. The bill would prevent a defendant from removing a state court action to federal court, which is permitted under current law, by giving the plaintiff the exclusive right to choose whether a sec. 502(a)(1)(B) action will be decided by a federal or state court.

**Outlook:** Opponents of this provision warn that its passage could have an impact on the ability of employers to offer uniform benefits to employees across state lines. The bill has not yet appeared on the Judiciary Committee calendar.

**ERISA/Pension Plans—**Retiring Senate Labor and Human Resources Committee Chair Nancy Kassebaum (R-KS) introduced Nov. 7 a bill (S. 1400) that would require the U.S. Department of Labor to clarify that pension fund assets held in insurance companies’ general accounts are exempt from ERISA. The bill is intended to remedy situations in which insurance companies are deemed fiduciaries for
certain portions of pension plan group annuity contracts held in their central investment pools. The bill would reverse a 1993 Supreme Court decision in *John Hancock Mutual Life Insurance vs. Harris Trust and Savings Bank* in which the court held that holding pension assets as part of a general account could violate certain provisions of ERISA.

**Outlook:** The bill would not affect any ongoing civil litigation. No action has yet been scheduled on the legislation.

**Medicare/Medicaid Data Bank—** The House Ways and Means Committee approved a bill (H.R. 2685) Nov. 30 to repeal the Medicare/Medicaid Coverage Data Bank (*Notes*, 8/95). The House may expedite consideration of the measure by bringing it up under the special Corrections Day calendar before session’s end. A repeal provision had been included in earlier versions of the budget package, but was ultimately dropped.

**Outlook:** The repeal provision could be attached to the balanced budget bill during the next round of negotiations, or Congress could take it up as a separate bill later this Congress. Short of action to repeal the provision outright, Congress is still expected to bar funds from being spent to implement the data bank through the Labor, Health and Human Services, and Education appropriations bill (H.R. 2127). That bill is awaiting Senate action.

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**Keeping on Track**

The following items are listed to keep you up-to-date on issues that were not specifically addressed in Washington Update.

**DoL Proposed Rule on 401(k) Transfers**

The Department of Labor Dec. 11 announced that it will propose sharply reducing the amount of time given employers to transfer employees’ contributions to 401(k) plans. Current law dictates that employers turn the money over to the investment plan as soon as possible, but the money can be held by the employer for up to 90 days. Under the new proposal, the 90-day window would be eliminated and replaced with the same requirement employers must follow for paying Social Security taxes. The timing of Social Security tax payments is currently based on the size of the employer’s payroll. That time period ranges from a few days to less than a month for the majority of employers.

**Defined Benefit Plan Funding**

The Internal Revenue Service (IRS) Nov. 29 released Revenue Procedure 95-51 to announce changes that sponsors of defined benefit plans can make to the funding methods used to determine the plan’s minimum funding standard. The Revenue Procedure appeared in the Dec. 18 edition of the *Internal Revenue Bulletin*.

**IRS Examination Guidelines**

The IRS Nov. 22 issued proposed examination guidelines (Announcement 95-99) for Internal Revenue Code sec. 415(b) benefit limits and distributions from qualified retirement plans. The guidelines were developed for use by employee plans examiners when examining plans for compliance with certain distribution requirements and for the application of the limitation on benefits under sec. 415(b). The announcement appeared in the Nov. 27 *Internal Revenue Bulletin*.

**IRS Guidance on Notice Requirements**

The IRS Dec. 12 released proposed and temporary rules (EE-34-95) regarding notice requirements under sec. 204(h) of ERISA. According to the release, benefits plan administrators do not have to notify plan participants of plan amendments unless they significantly reduce the rate of future benefit accruals. The rules were published in the Dec. 15 *Federal Register*.

**PBGC Guaranteed Benefit Limit for 1996**

The Pension Benefit Guaranty Corporation (PBGC) has announced that the maximum benefit guarantee for retirees in single-employer defined benefit plans that terminate in 1996 will be $2,642.05 per month. The maximum benefit in 1995 was $2,573.86.

**PBGC’s Missing Participant Clearinghouse**

PBGC Nov. 30 issued final rules establishing a clearinghouse for locating missing workers due pensions from former employers. The Retirement Protection Act of 1994 authorized PBGC to expand the (continued)
locator program already in place for people due pensions from underfunded defined benefit plans taken over by PBGC. Beginning in 1996, the clearinghouse will include people who are due pensions from fully funded plans that terminate. The final rules describe the steps that a plan administrator must take when undergoing a plan termination before turning sums over to PBGC. The final rules appeared in the Dec. 1 *Federal Register.*

**PBGC Top 50 List**

PBGC Dec. 6 released its annual list of the 50 companies with the largest amounts of underfunding in their defined benefit pension plans guaranteed by PBGC. The list reflects the plans’ funding status in 1994. These companies’ plans represent approximately 45 percent of overall underfunding in the single employer plans insured by PBGC. Overall, underfunding has declined by $40 billion since 1993. Sixteen companies moved off the 1994 list due in large part to contributions beyond the minimum required.

**Social Security Advisory Council**

The Advisory Council on Social Security met Dec. 14 to discuss preliminary findings and recommendations for a final report regarding issues affecting the Social Security Old-Age, Survivors, and Disability Insurance programs. A final report is expected in January.

**Social Security Claims Filing**

The Social Security Administration (SSA) is seeking employers to participate in a pilot program that would enable retiring employees to apply for Social Security retirement benefits at the same time they complete retirement paperwork with their company’s personnel office. Employers would be required to forward the information to the SSA. For further information contact Sandra Steeley at SSA, (410) 965-8976.

**State Pension Source Taxation**

At press time, a bill (H.R. 394) that would deny states the ability to tax the pension income of individuals who no longer reside in that state was expected to be taken up on the House floor Dec. 19 (*Notes*, 10/95). As the bill is currently worded, all income from tax-qualified retirement plans would be protected from the source tax, while income from non-qualified plans would be protected only if the plan has a 10-year or longer payout period or is an excess benefits plan, mirror image plan, or other type of plan that is tied to the amount of benefits an employee receives from a qualified plan. A nearly identical bill (S. 44) had been attached to H.R. 2491 but was ultimately dropped before that bill’s final passage.

**Tax Reform Commission**

The National Commission on Economic Growth and Tax Reform is now expected to release its report and recommendations on overhauling the federal tax system in mid-January (*Notes*, 11/95). Senate Majority Leader Bob Dole (R-KS) and House Speaker Newt Gingrich (R-GA) created the panel earlier this year. Sen. Dole is expected to use the commission’s recommendations to develop his platform on tax reform for the 1996 presidential race, for which he is seeking the Republican nomination.