

Notes

Employee Tenure, 2008, p. 2

Retiree Health Benefit Trends Among the Medicare-Eligible Population, p. 13

EXECUTIVE SUMMARY

Employee Tenure, 2008

TENURE LARGELY UNCHANGED OVER 25 YEARS: Data on employee tenure—the amount of time an individual has been with his or her current employer—show that career jobs *never* existed for most workers, and still do not. The median tenure of workers—the midpoint of wage and salary workers' length of employment in their current job—was virtually unchanged over the past 25 years: 5.1 years at the same job in 2008, compared with 5.0 years in 1983.

GENDER DIFFERENCES: Behind those overall results are very different trends by gender. The median tenure for *male* wage and salary workers declined (from 5.9 years in 1983 to 5.2 years in 2008) while it increased for *female* wage and salary workers (from 4.2 years in 1983 to 4.9 years in 2008), leaving the overall level essentially unchanged.

PUBLIC VS. PRIVATE SECTOR: *Private-sector* workers' median tenure also held steady over the period, near the 3.9-year level of 2008, but the median tenure for *public-sector* workers increased from 6.0 years in 1983 to 7.0 years in 2008. Over this 25-year period, median job tenure in the public sector increased significantly relative to the private sector, and currently is about 80 percent higher than that of the private sector. Almost 10 percent of public-sector workers have 25 or more years of tenure (significantly more than the private sector), which leaves public-sector employers facing the retirement of a sizable portion of their most experienced work force in the near future.

Retiree Health Benefit Trends Among the Medicare-Eligible Population

IMPACT OF ACCOUNTING STANDARDS: Perhaps the single most-important factor that has affected the availability of health benefits for retirees through former private-sector employers was a 1990 accounting rule. FAS 106 required companies to record and disclose retiree health benefit liabilities on their financial statements and triggered many of the changes to retiree health benefits, most notably the sharp decline in the benefits being offered. GASB Statements No. 43 and 45, which impose new accounting standards on public-sector sponsors of retiree health benefits, are similar to FAS 106 and will have a similar, if not greater, impact on the financial statements of public-sector entities.

DOWNWARD TRENDS: As a result of FAS 106 and the rising cost of providing retiree health benefits, most U.S. private-sector workers will never become eligible for health insurance in retirement through a former employer. Fewer employers are offering health benefits to future retirees; when those benefits are offered, eligibility criteria are becoming harder to meet; and employer subsidies are disappearing. In 2008, 26 percent of 65–69-year-olds had retiree health benefits, down from 32 percent in 1994, and the numbers are lower for older retirees.

MORE RETIREMENT-AGE PEOPLE ARE WORKING: it is possible that the decline in coverage would have been even larger had it not been for changes in the work status of individuals eligible for Medicare. In 1995, 59 percent of individuals ages 65–69 considered themselves retired, and that fell to 53.6 percent in 2008, while those saying they were working increased from 28 percent in 1995 to 35 percent in 2008.

Employee Tenure, 2008

by Craig Copeland, Employee Benefit Research Institute

Introduction

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

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

This article updates previous Employee Benefit Research Institute (EBRI) publications that have examined employee tenure data of American workers.¹ The latest data on employee tenure from the January 2008 Supplement to the U.S. Census Bureau’s Current Population Survey (CPS) are examined and compared with the trends from previous CPS publications on employee tenure.²

The data for 2008 show that the median tenure of workers—the midpoint of wage and salary workers’ length of employment in their current job—was virtually unchanged over the past 25 years: 5.1 years at the same job in 2008, compared with 5.0 years in 1983. Even among older male workers (ages 55–64), who experienced the largest change in their median tenure, the median tenure fell from a level that would not be considered a career—14.7 years in 1963—to a roughly comparable but clearly lower level of 10.1 years in 2008.³

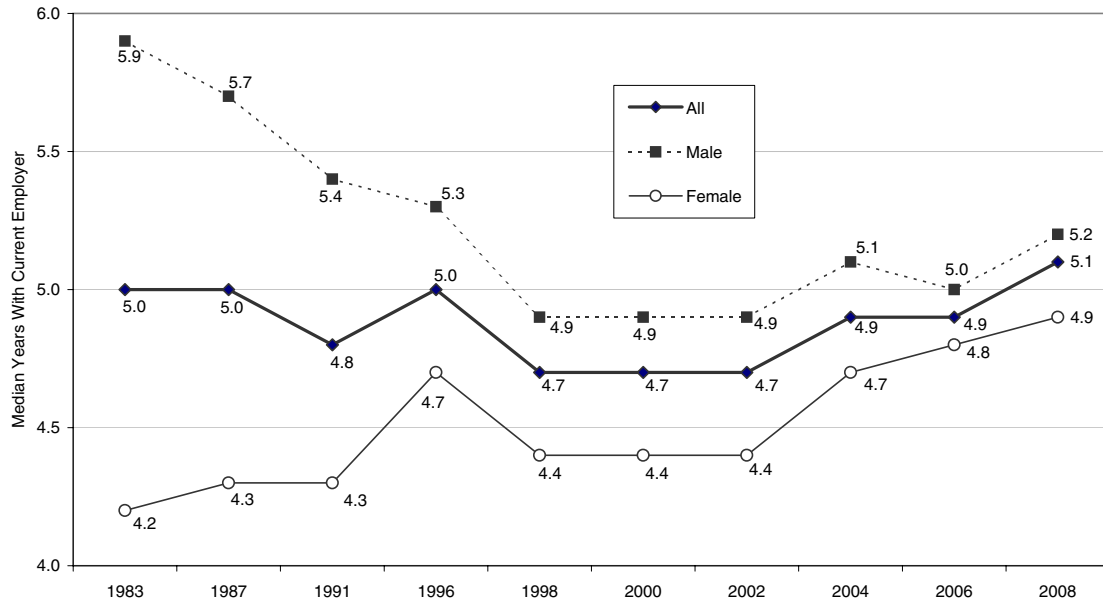
Overall Tenure

The median tenure for all wage and salary workers age 25 or older was virtually unchanged from 1983 (5.0 years) to 2008 (5.1 years) (Figure 1). However, the median tenure for *male* wage and salary workers declined from 5.9 years in 1983 to 5.2 years in 2008. In contrast, the median tenure for *female* wage and salary workers increased from 4.2 years in 1983 to 4.9 years in 2008. Consequently, the increase in the median tenure of female workers offset much of the decline in the median tenure of male workers, leaving the overall level essentially unchanged.

Age and Gender—A closer examination of age and gender median tenures using a longer time series shows that the median tenure for the oldest working males (ages 55–64) declined steadily from a peak of 15.3 years in 1983 to 10.1 years in 2008 (Figure 2).⁴ However, since a male worker of this age with the median level of tenure would not have started this job until he was in his 40s, it would be difficult to consider that a career job. As the age category decreases, the median tenure line becomes flatter, showing a smaller change in the tenure level across time. The 25–34-year-old male tenure line was virtually flat, at three years. For females, the median tenure was flat to increasing across all age groups (Figure 3). The largest increase was among females ages 55–64, whose median tenure increased from 7.8 years in 1963 to 9.8 years in 2008.

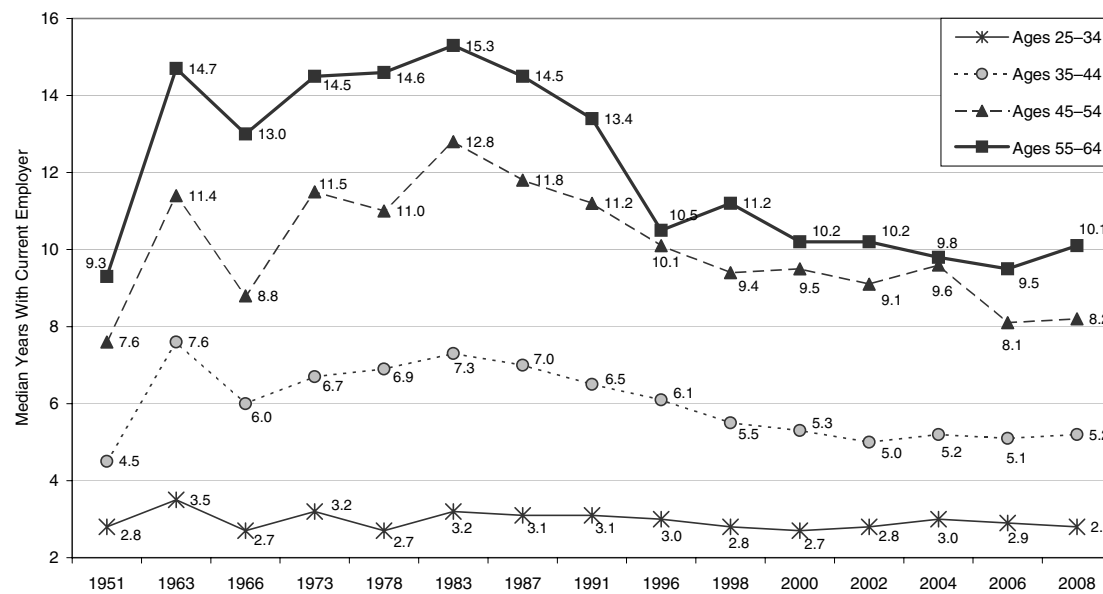
Public vs. Private Sector—Among *all* wage and salary workers age 20 or older, the median tenure level held steady at or just above 4.0 years from 1983 to 2008 (Figure 4). *Private-sector* workers’ median tenure also held steady over that period, at around 3.6 years, with a small rise in 2004 to 3.9 years, where it held steady in 2006 and 2008. However, the median tenure for *public-sector* workers increased from 6.0 years in 1983 to 7.5 years in 1998 before declining to 7.0 years in 2004, where it remained in 2006 and 2008. Over this two-decade period, median job tenure in the public sector increased significantly relative to the private sector, and currently is about 80 percent higher than that of the private sector.

Figure 1
Median Years of Tenure For Wage and Salary Workers Age 25 or Older, by Gender, 1983–2008



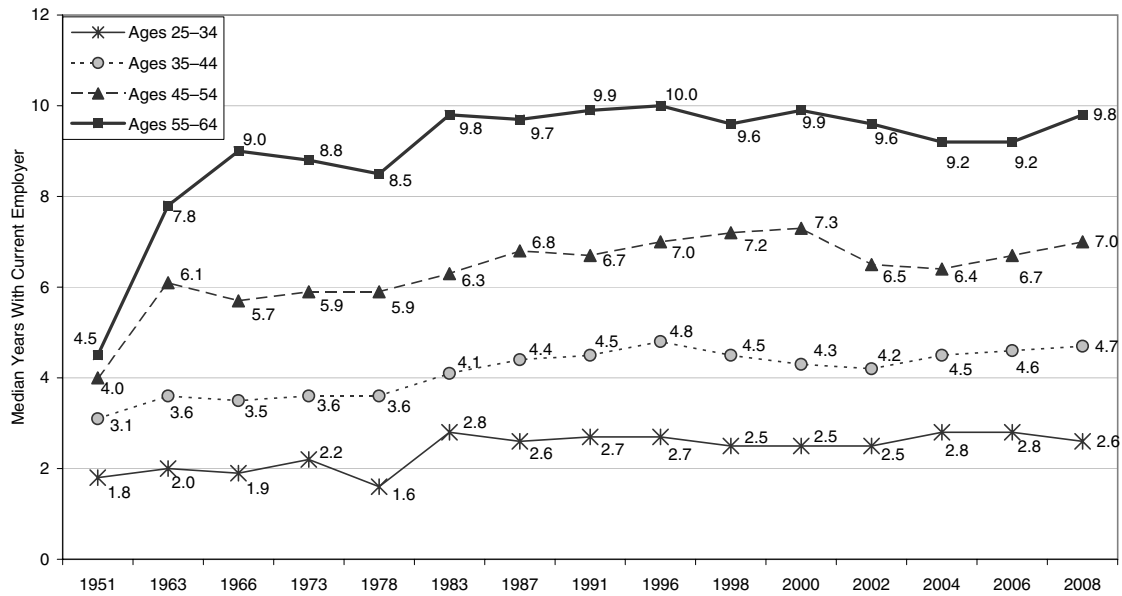
Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, at www.bls.gov/news.release/tenure.t01.htm and ftp.bls.gov/pub/news.release/History/tenure.09192002.news, viewed January 30, 2007, and www.bls.gov/news.release/tenure.nr0.htm, viewed Nov. 24, 2009.

Figure 2
Male Prime-Age (25–64) Workers Median Tenure Trends, by Age, 1951–2008



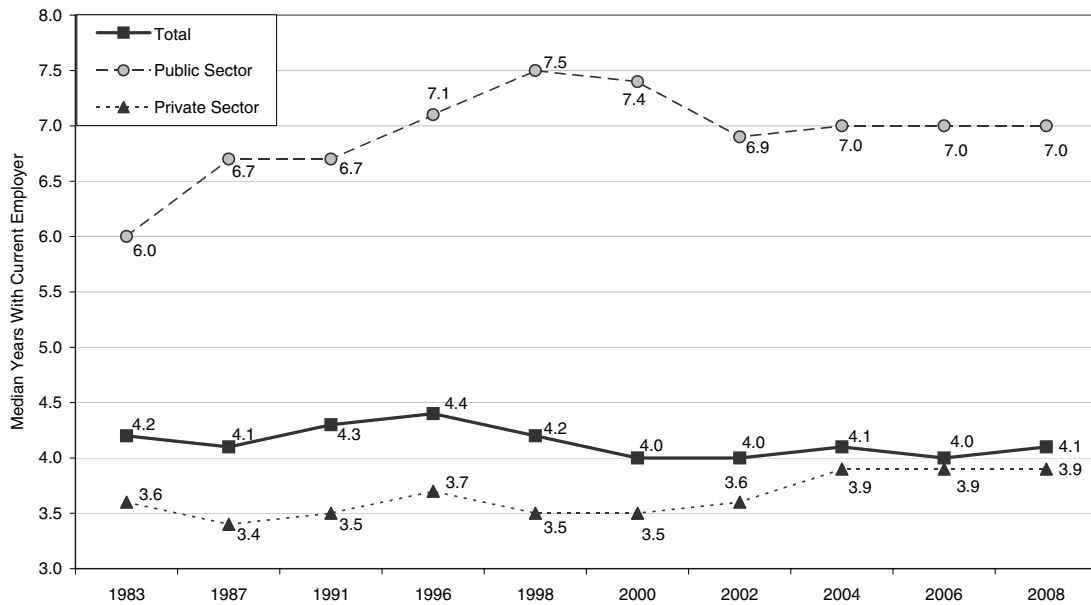
Source: Employee Benefit Research Institute compilations from data (for 1951, 1963, 1966, 1973, and 1978) from the *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979), and from press releases (for 1983, 1987, 1991, 1996, 1998, 2000, 2002, 2004, 2006,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

Figure 3
Female Prime-Age (25–64) Workers' Median
Tenure Trends, by Age, 1951–2008



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

Figure 4
Median Tenure Levels For Wage and Salary Workers
(Age 20 or Older), by Sector, 1983–2008



Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, and EBRI estimates from the January 2004, 2006, and 2008 Current Population Surveys.

For *male private-sector* wage and salary workers age 20 or older, the median tenure trended slightly downward, from 4.2 years in 1983 to 3.8 years in 2002, before increasing to 4.0 years in 2004 and returning to 4.0 years in 2008 (Figure 5). In contrast, *female private-sector* workers had a slight upward trend in their median tenure, from 3.1 years in 1983 to 3.9 years in 2008.

For *male public-sector* workers, the median tenure had a flat to upward trend from 7.9 years in 1983 to 8.5 years in 2004, before falling back to 8.0 years in 2006 and 2008. *Female public-sector* workers' median tenure level had an overall upward trend during the 1983–2002 period, reaching a peak of 6.9 years in 1998 before falling to 6.0 years in 2004 and subsequently increasing again to 6.5 years in 2006 and remaining there in 2008.

Tenure Distribution

The distribution of all wage and salary workers age 20 or older across various levels of tenure was quite stable from 1983 through 2008 (Figure 6). The small changes that appeared over the period were an increase in the percentage of workers with 20 or more years of tenure, from 8.9 percent to 10.7 percent, and a decrease in the percentage with one year or less of tenure, from 25.7 percent to 20.8 percent. The tenure level categories in between varied within fairly small ranges. In 2008, the trend continued toward 50 percent of workers having at least five years of tenure, reaching 49.1 percent—the highest percentage since 1983.

The constancy of the tenure distribution over time is less pronounced when analyzed by the workers' gender. While the percentage of male workers with the longest tenure (20 or more years) in 2008 was similar to its 1983 level, there appears to have been an upward trend in the percentage of male workers with less than five years of tenure, but it was followed by a downward trend in the most recent years (2004–2008) (Figure 7). In 1983, the percentage of male workers with less than five years of tenure was 49.4 percent, and by 1998 this percentage had increased to 52.5 percent before falling back to 50.1 percent by 2008.

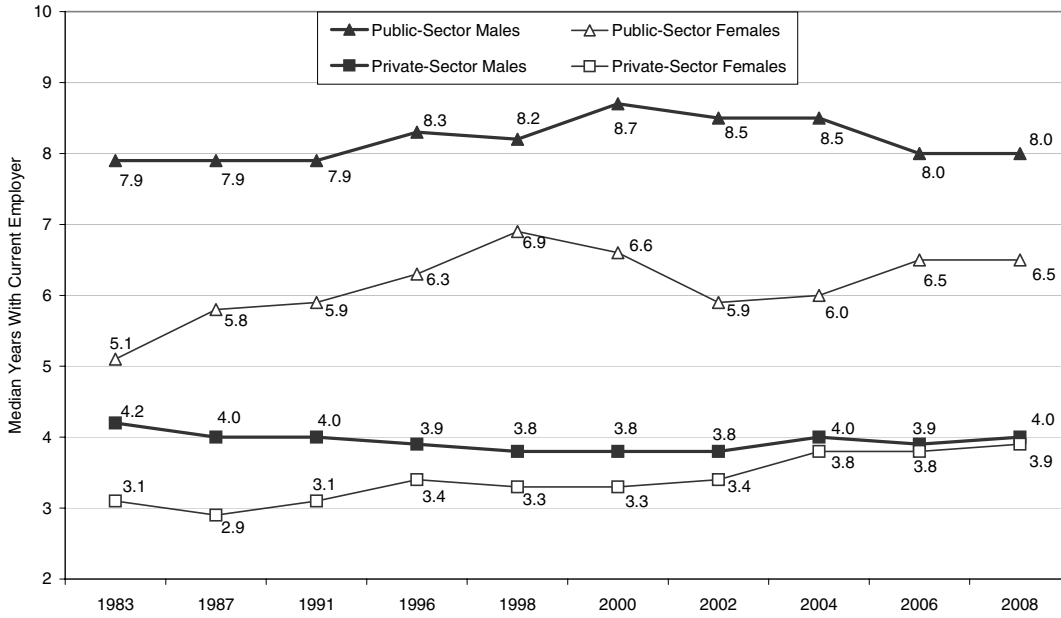
Female workers' tenure distribution had a clearly different pattern, as the percentage with 20 or more years of tenure increased substantially, from 4.9 percent in 1983 to 9.4 percent in 2008 (Figure 8). Furthermore, the percentage of female workers who had 10 or more years of tenure increased by more than 6 percentage points from 1983 to 2008. Consequently, the percentage of female workers with less than five years of tenure decreased, particularly for those with one year or less of tenure.

Among the older portion of the work force (ages 45–64), male and female workers had different trends in the percentage with 10 or more years of tenure over the 1983–2008 period. Among the *male* age groups examined, there was a minimum decrease of 11 percentage points in the share of workers with 10 or more years of tenure. Males ages 45–49 experienced the largest decline: from 57.8 percent in 1983 to 43.5 percent in 2008 (Figure 9). However, in 2008, the percentage of male workers ages 55–59 and 60–64 with 10 or more years of tenure jumped by more than 4 percentage points from 2006 (51.0 percent to 54.9 percent, and from 48.1 percent to 52.4 percent, respectively).

In contrast, the percentage of *female* workers of this age who had 10 or more years of tenure increased for each age except for those ages 55–59, who had only a slight decline during the 1983–2008 period (Figure 10). The share of female workers ages 45–49 with 10 or more years of tenure went up from 33.0 percent in 1983 to 36.7 percent in 2008, an almost 4 percentage point increase and the largest change. This trend peaked at 41.4 percent in 2000 before declining to its current level at just under 37 percent. On the other hand, among female workers ages 55–59, the percentage with 10 or more years of tenure declined from 51.0 percent to 50.0 percent. However, this percentage jumped to 54.8 percent in 2008 among females ages 60–64, after a downward trend in the percentage with 10 or more years of tenure from 1983–2006 (from 52.6 percent to 48.7 percent).

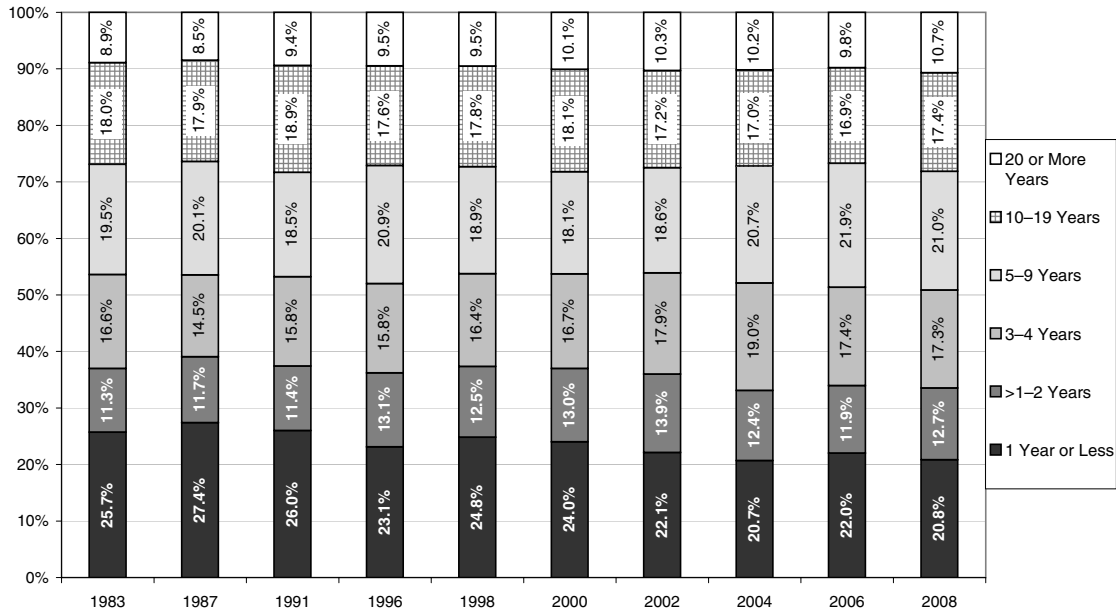
Among older workers (ages 45–64), the percentage having 25 or more years of tenure declined from 1983 to 2008 (Figure 11). However, among those ages 60–64, the percentage with 25 or more years of tenure increased by more than 3 percentage points from 2006–2008, after a fairly steep decline from 1983–2006. In 1983, 23.3 percent of wage and salary workers ages 60–64 had tenure of 25 or more years, compared with 16.6 percent in 2006. For those ages

Figure 5
Median Tenure Levels For Wage and Salary Workers
(Age 20 or Older), by Sector and Gender, 1983–2008



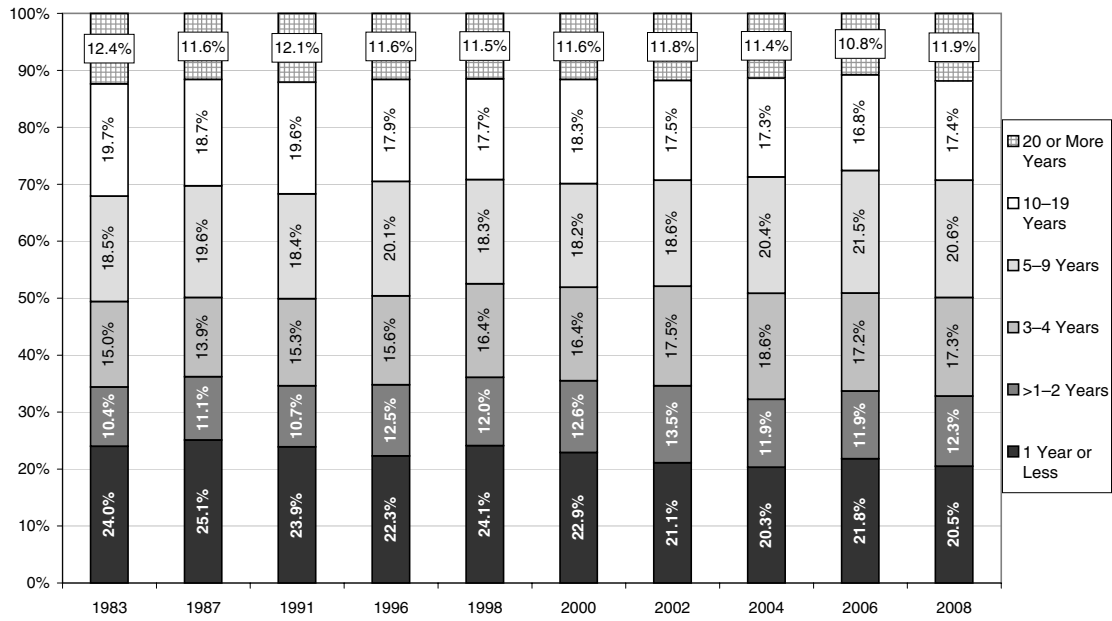
Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, and EBRI estimates from the January 2004, 2006, and 2008 Current Population Surveys.

Figure 6
Employee Tenure Distribution:
All Wage and Salary Workers (Age 20 or Older), 1983–2008



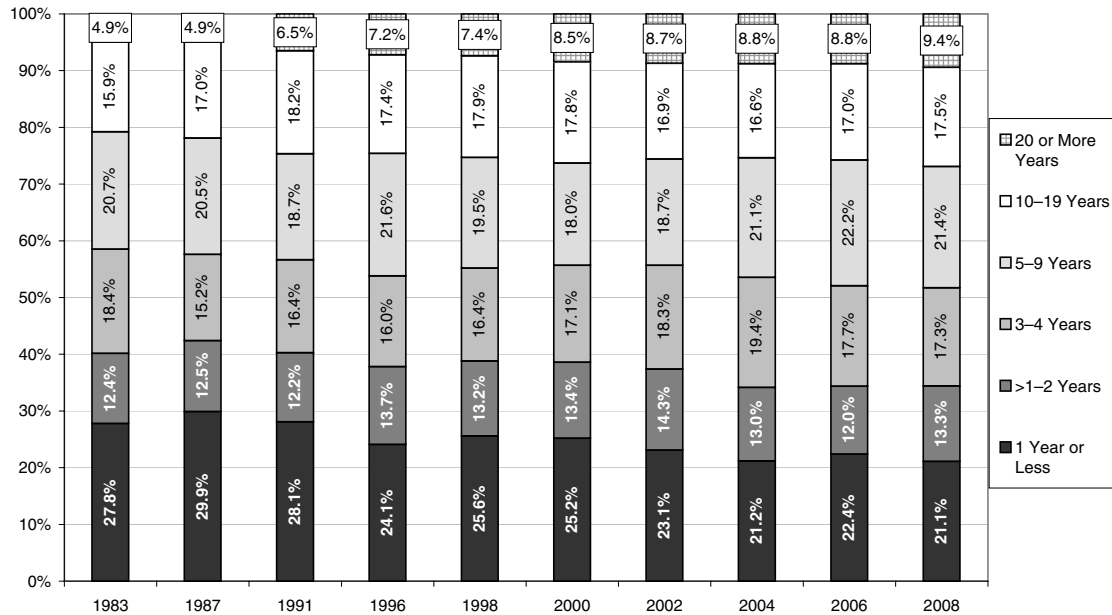
Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, at ftp.bls.gov/pub/news.release/History/tenure.09192002.news, ftp.bls.gov/pub/news.release/History/tenure.09212004.news, www.bls.gov/news.release/tenure.t03.htm, and www.bls.gov/news.release/tenure.nr0.htm, viewed Nov. 24, 2009.

Figure 7
Employee Tenure Distribution:
Male Wage and Salary Workers (Age 20 or Older), 1983–2008



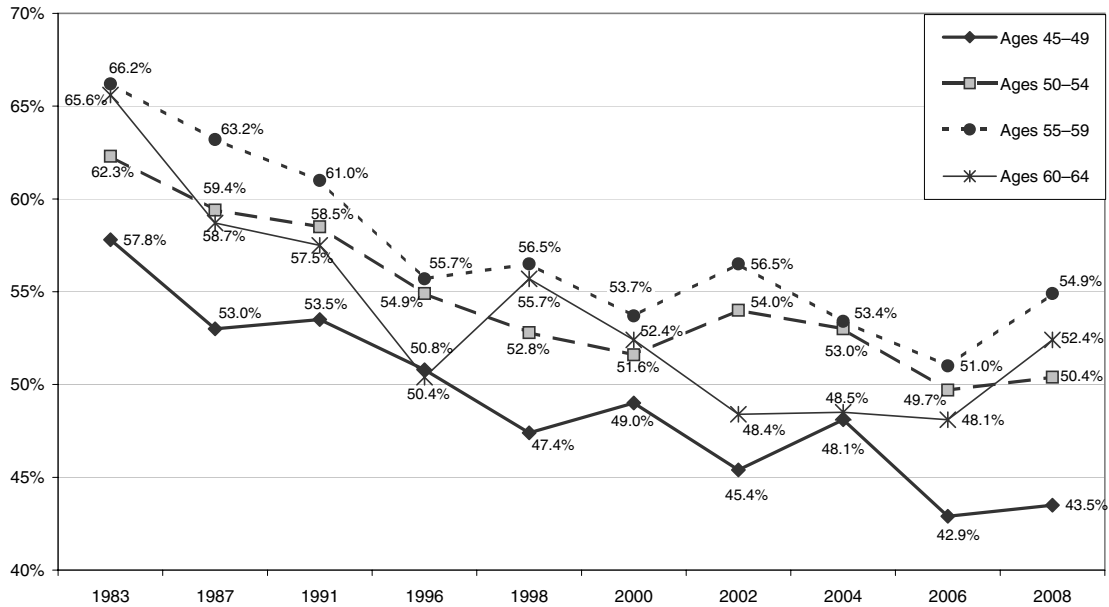
Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, at <ftp.bls.gov/pub/news.release/History/tenure.09192002.news>, <ftp.bls.gov/pub/news.release/History/tenure.09212004.news>, www.bls.gov/news.release/tenure.t03.htm, and www.bls.gov/news.release/tenure.nr0.htm, viewed Nov. 24, 2009.

Figure 8
Employee Tenure Distribution:
Female Wage and Salary Workers (Age 20 or Older), 1983–2008



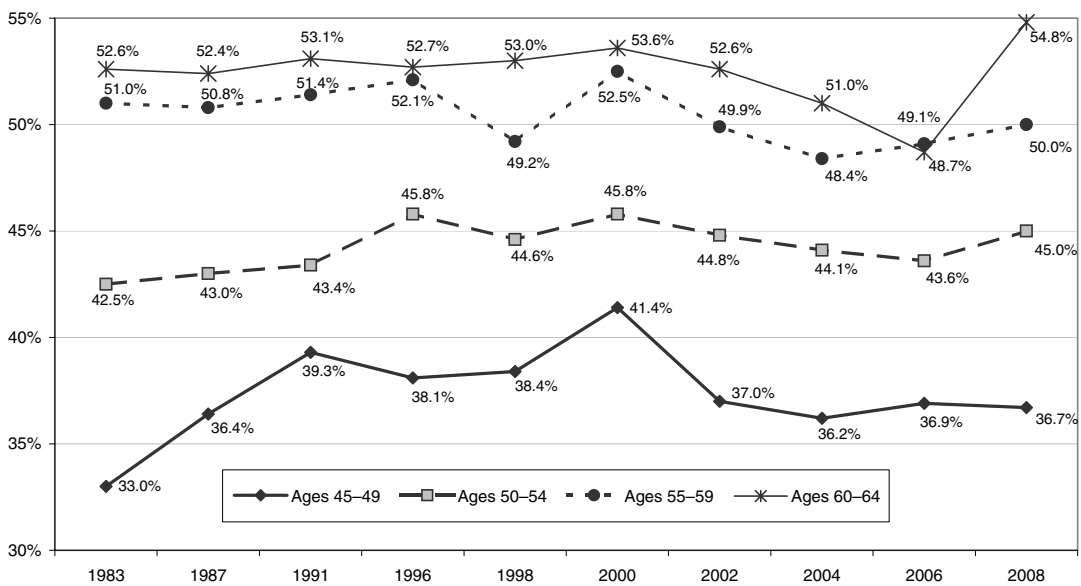
Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, at <ftp.bls.gov/pub/news.release/History/tenure.09192002.news>, <ftp.bls.gov/pub/news.release/History/tenure.09212004.news>, www.bls.gov/news.release/tenure.t03.htm, and www.bls.gov/news.release/tenure.nr0.htm, viewed Nov. 24, 2009.

Figure 9
Percentage of Male Wage and Salary Workers Ages 45–64
Who Had 10 or More Years of Tenure, by Age, 1983–2008



Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, at ftp.bls.gov/pub/news.release/History/tenure.09192002.news, ftp.bls.gov/pub/news.release/History/tenure.09212004.news, www.bls.gov/news.release/tenure.t03.htm, and www.bls.gov/news.release/tenure.nr0.htm, viewed Nov. 24, 2009.

Figure 10
Percentage of Female Wage and Salary Workers Ages 45–64
Who Had 10 or More Years of Tenure, by Age, 1983–2008



Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, at ftp.bls.gov/pub/news.release/History/tenure.09192002.news, ftp.bls.gov/pub/news.release/History/tenure.09212004.news, www.bls.gov/news.release/tenure.t03.htm, and www.bls.gov/news.release/tenure.nr0.htm, viewed Nov. 24, 2009.

55–59, a persistent decline occurred: from 22.7 percent in 1983 to 17.6 percent in 2008. The decline in the percentage of workers ages 45–54 with 25 or more years was much less dramatic: from 12.9 percent in 1983 to 10.1 percent in 2008.

In addition to differences by age and gender, tenure distribution is also significantly different across the employment sectors. Among the *longest-tenured private-sector workers* (25 or more years), the percentage of all workers (both male and female) with this tenure remained relatively stable from 1983–2008 (Figure 12). Among male private-sector workers with 25 or more years of tenure, the trend was downward (from 7.7 percent in 1983 to 6.1 percent in 2008), while the female trend was upward (from 2.6 percent in 1983 to 4.0 percent in 2008), leading to the overall percentage remaining stable at approximately 5.1 percent. However, the percentage of private-sector workers with 25 or more years of tenure increased slightly in 2008, with the percentage of males rising from 5.4 percent in 2006 to 6.1 percent in 2008. In contrast, the percentage of *public-sector workers* (again both male and female) with 25 or more years of tenure increased sharply during this period: Among male workers, the percentage with the longest tenure went from 8.1 percent in 1983 to 12.7 percent in 2004, before falling to 11.7 percent in 2006 and 11.3 percent in 2008; the increase was even greater among female workers, with the percentage with 25 or more years of tenure rising from 2.6 percent in 1983 to 8.6 percent in 2008.

This result has significant implications for public-sector employers, as a considerable portion of their work force will be approaching retirement in the near future. Thus, at a time of growth in the nation's elderly population (which is more likely to need social services than the nonelderly), the most experienced workers within the state and federal agencies providing these services will be retired or retiring. In contrast, private-sector employers, in general, do not appear to be facing this issue, as they have employed a consistent percentage of long-term workers over the last 20 years, although this trend may be changing with the uptick in 2008.

Discussion

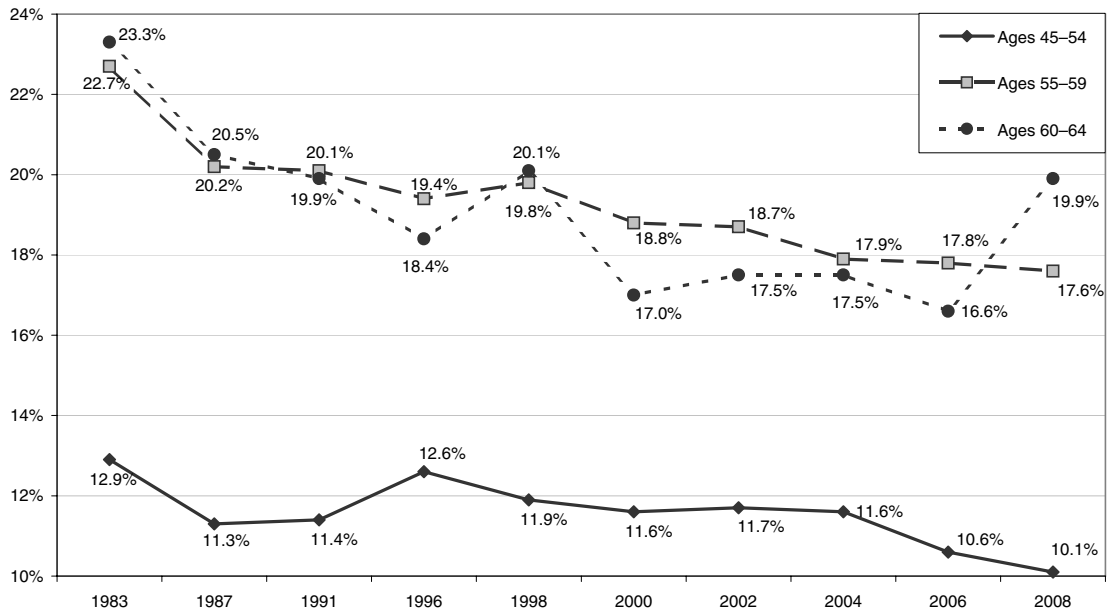
Over the past 25 years, the median tenure of all wage and salary workers age 20 or older has stayed at or just below five years. However, the overall trend masks a small but significant decrease in median tenure among men, which was offset by an increase in median tenure among women. Furthermore, the distribution of tenure among these workers has remained relatively constant over this period, but with a tendency toward longer tenures. Consequently, overall employee tenure has been remarkably stable since 1983, although trends between the genders have moved in opposite directions and the percentage of older workers with the longest tenure has declined, particularly among those ages 60–64; however, there were signs of an increasing level of tenure among the oldest workers in 2008.

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

The difference between private-sector and public-sector workers' tenure distribution is quite striking. While private-sector employers in general have been able to maintain a fairly constant percentage of long-term employees (25 or more years of tenure), public-sector employers have had an increasing percentage, which continued to grow significantly from 2002–2004 before experiencing a slight drop in 2006 and leveling off in 2008. Consequently, public-sector employers are facing the retirement of a significant number of their most experienced workers.

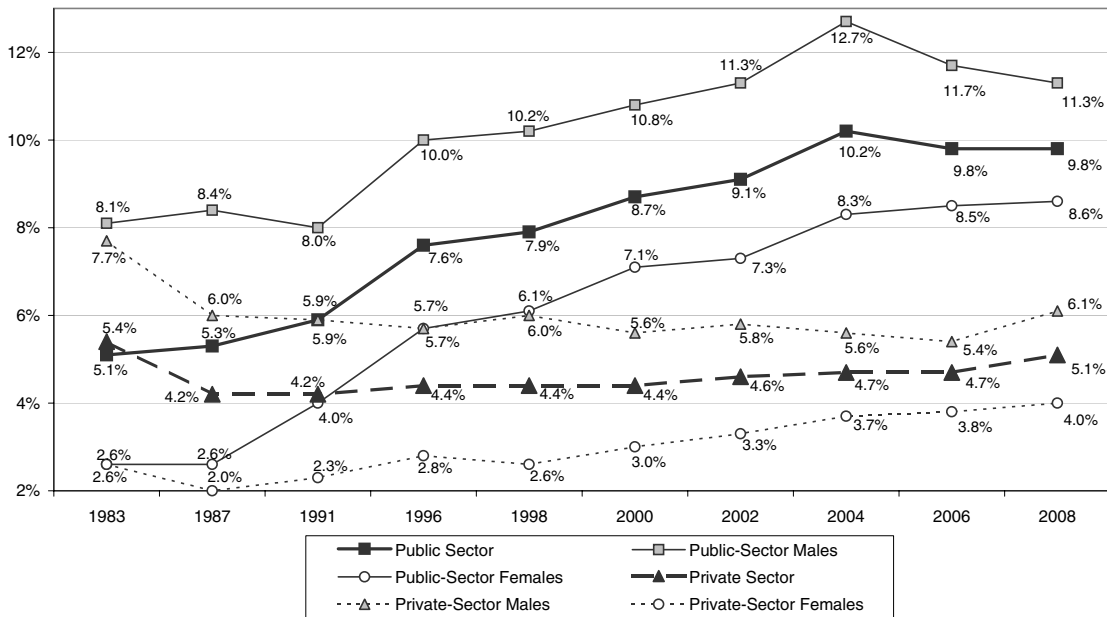
While the tenure levels presented in this article show that *job stability* has remained relatively constant over the last two decades, these data do not measure *job security*. For instance, an increase in workers' median tenure may be interpreted to mean that job security has declined because those with shorter tenures have been let go, leaving the longer-tenured workers less secure. Or the median tenure could decline when workers feel more secure and have a greater ability to find other employment, so that more workers switch to better jobs—lowering the median tenure. Conversely, workers who feel more secure in their current job may not be motivated to switch employers due to their

Figure 11
**Percentage of Wage and Salary Workers Ages 45–64
 Who Had 25 or More Years of Tenure, by Age, 1982–2008**



Source: Employee Benefit Research Institute compilations from U.S. Department of Labor, Bureau of Labor Statistics, *Employee Tenure*, and EBRI estimates from the January 2004, 2006, and 2008 Current Population Surveys.

Figure 12
**Percentage of Wage and Salary Workers (Age 20 or Older) With 25
 Years or More of Tenure, by Sector and Gender, 1983–2008**



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

security, which could lead to a higher median tenure. Consequently, although tenure is not a good measure of job security, it does provide insight into how long workers choose to, or are allowed to, remain with their current employer.

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

Defined Benefit Pensions—Since defined benefit (DB) pensions that are final-average plans have a formula based on tenure and average salary, workers who frequently change jobs will not receive the maximum benefit from this type of retirement plan because they do not remain with their same employer for an extended period. In fact, short-tenure workers (with less than five years in a job) may not qualify for any pension benefit at all. Since the median length of employment for all wage and salary workers was just 5.1 years in 2008, current American workers who are likely to receive a significant benefit from a DB pension are in a distinct minority.

Lump-Sum Distributions—A worker who changes employers must decide what to do with any retirement plan assets he or she has accumulated (either in a defined benefit or a defined contribution 401(k)-type plan), a situation that has become more prevalent with the growth in DB pension plans that allow a lump-sum distribution (LSD)⁵ Thus, benefit preservation becomes an important concern for these employees as well as for their plan sponsors. If employees do not retain these assets in some type of savings vehicle for retirement, they may forgo an important source of supplemental income to their Social Security benefits or be forced to remain in the work force. Without this source of income, many workers may face financial difficulties in retirement as health care costs continue to rise and both Medicare and Social Security are experiencing long-term financing issues.

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

Endnotes

¹ See Paul Yakoboski, "Debunking the Retirement Policy Myth: Lifetime Jobs Never Existed for Most Workers," *EBRI Issue Brief*, no. 197 (Employee Benefit Research Institute, May 1998); Paul Yakoboski, "Male and Female Tenure Continues to Move in Opposite Directions," *EBRI Notes*, no. 2 (Employee Benefit Research Institute, February 1999): 1–4; David Rajnes, "Update on Employee Tenure," *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 2001): 1–8; Craig Copeland, "Employee Tenure," *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 2003): 1–10; Craig Copeland, "Employee Tenure: Stable Overall, but Male and Female Trends Differ," *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 2005): 1–10.; and Craig Copeland, "Employee Tenure, 2006," *EBRI Notes*, no. 4 (Employee Benefit Research Institute, April 2007): 1–11.

² The updated data come from the January 2008 Supplement to the Current Population Survey (CPS), a monthly survey of approximately 60,000 households on demographics, labor force status, and other characteristics of the civilian noninstitutionalized American population. The U.S. Census Bureau conducts this CPS supplement for the U.S. Department of Labor's Bureau of Labor Statistics (BLS). Tenure levels for previous years come from various other supplements to the CPS. For a further discussion of the data sources, see the Bureau of Labor Statistics, *Employee Tenure Technical Note*, at www.bls.gov/news.release/tenure.tn.htm, viewed Oct. 6, 2009. Results of research from BLS and EBRI are compiled in this article to present various trends in employee tenure. See the EBRI publications, op. cit., and the Bureau of Labor Statistics, *Employee Tenure*, www.bls.gov/news.release/tenure.toc.htm, viewed Oct. 6, 2009.

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

⁴ BLS reports that the results prior to 1983 are not directly comparable to those in 1983 and after. See *Employee Tenure Technical Note*, op. cit., for a discussion of the issue. The results from those prior years are presented here to give an idea of the best estimate for tenure during that time. The tenure questions were again changed in 1996, so while the 1983 questions are close, the most consistent numbers across years start in 1996. The 2006 release on tenure from BLS updated numbers going back to 1996, making some very minor changes in some of the numbers from those previously published. See Note in tables of the 2006 BLS press release on tenure, www.bls.gov/news.release/archives/tenure_09082006.pdf (last viewed Oct. 6, 2009).

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

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

Retiree Health Benefit Trends Among the Medicare-Eligible Population

By Paul Fronstin, *Employee Benefit Research Institute*

Introduction

One of the most important factors (if not the single-most important) that has affected the availability of health benefits for retirees through former employers was a 1990 accounting rule change issued by the Financial Accounting Standards Board (FASB). Financial Accounting Statement No. 106 (FAS 106), "Employer's Accounting for Postretirement Benefits Other Than Pensions," approved in December 1990, triggered many of the changes that private-sector employers have made to retiree health benefits, most notably the sharp decline in the benefits being offered.

FAS 106 requires companies to record retiree health benefit liabilities on their financial statements in accordance with generally accepted accounting principles. It also requires private-sector employers to accrue certain future claims' payments along with paid claims in determining charges to earnings. The immediate income statement inclusion and balance sheet footnote recognition of these liabilities dramatically affected many companies' reported profits, primarily large employers (since small employers typically did not offer retiree health benefits) and especially impacted the manufacturing and energy sectors, which have historically offered relatively generous retiree health benefits.

The public sector is following the private-sector's lead in this area. Recently, the Governmental Accounting Standards Board (GASB) released Statements No. 43 and 45, which impose new accounting standards on public-sector sponsors of retiree health benefits. These rules are similar to FAS 106 and will have a similar, if not greater, impact on how post-retirement health care obligations affect the financial statements of public-sector entities.

As a result of FAS 106 and the rising cost of providing retiree health benefits, most U.S. private-sector workers will never become eligible for health insurance in retirement through a former employer. Already, fewer employers are offering health benefits to future retirees (Figure 1); when those benefits are offered, eligibility criteria are becoming harder to meet (Figure 2); and employer subsidies are disappearing (Figure 3). These trends were predicted in the late-1980s (Chollet, 1989).

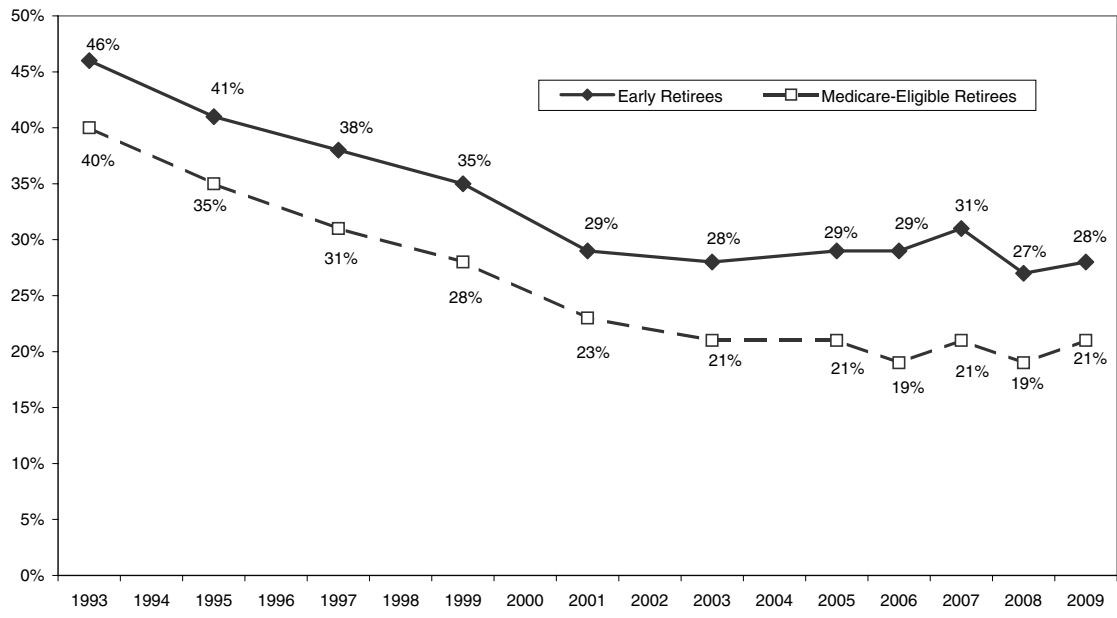
This article examines the prevalence of retiree health benefits among Medicare-eligible retirees.¹ It discusses the percentage of retirees with employment-based retiree health benefits over the 1994–2008 period. It also examines the trend for individually purchased coverage as a supplement to Medicare.

Retiree Health Benefit Coverage Rates

Figure 4 shows the percentage of retirees with health benefits in their own name through their current or former employer. The data are shown by age cohorts because many of the changes that employers made to retiree health benefit programs affected future retirees. As a result, younger retirees would be expected to be more likely than older retirees to be affected by these changes. While younger Medicare-eligible age cohorts were more likely than older ones to have retiree health benefits, younger age cohorts experienced the largest decline in coverage rates.

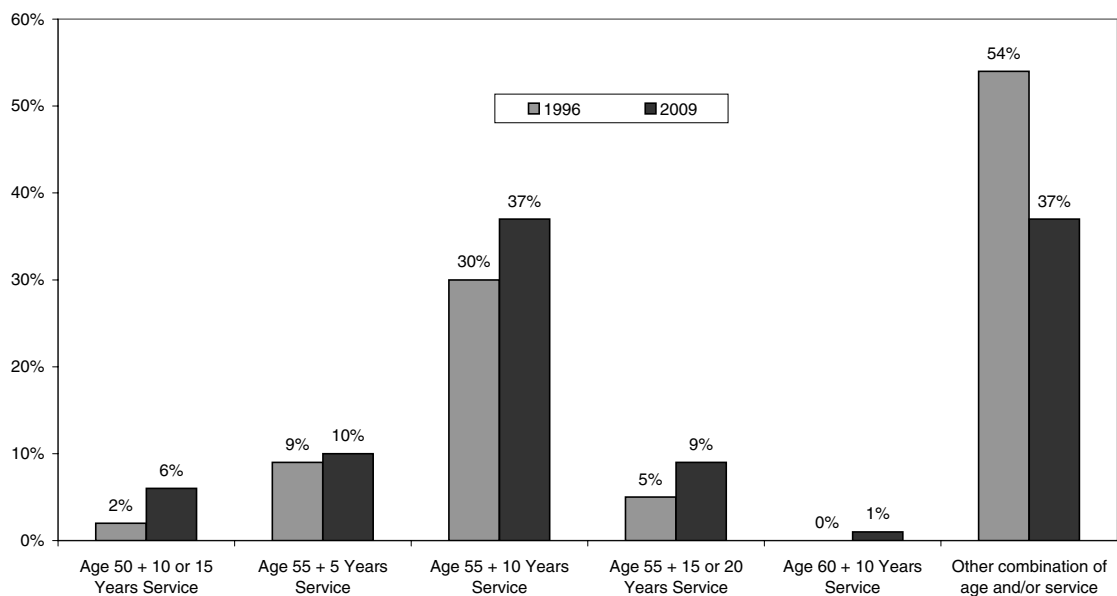
Although younger retirees are more likely than older retirees to have retiree health benefits, the gap closed substantially over the course of the period studied. In 1994, 32 percent of retirees ages 65–69 had retiree health benefits, while 28 percent of those ages 70–79 had benefits, and 21 percent of those age 80 and older had them. By 2008, the percentage of 65–69-year-olds with retiree health benefits fell to 26 percent. The portion of those ages 70–74 fell to 23 percent (with most of the decline occurring between 2006 and 2007). Similarly, the portion of 75–79-year-olds with retiree health benefits fell to 23 percent. In contrast, there was no change in the percentage of individuals age 80 and older who had retiree health benefits in their own name.

Figure 1
Percentage of Employers With 500 or More Employees
Offering Health Insurance to Retirees, 1993–2009



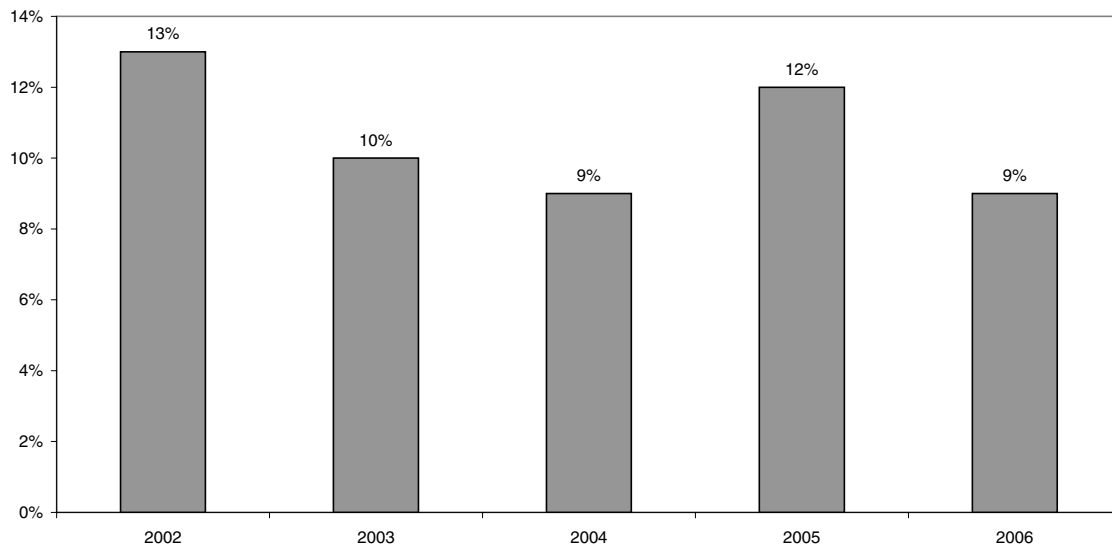
Source: Mercer National Survey of Employer-Sponsored Health Plans.

Figure 2
Eligibility Requirements for Retiree Health Benefits,
Employers With 1,000 or More Employees, 1996 and 2009



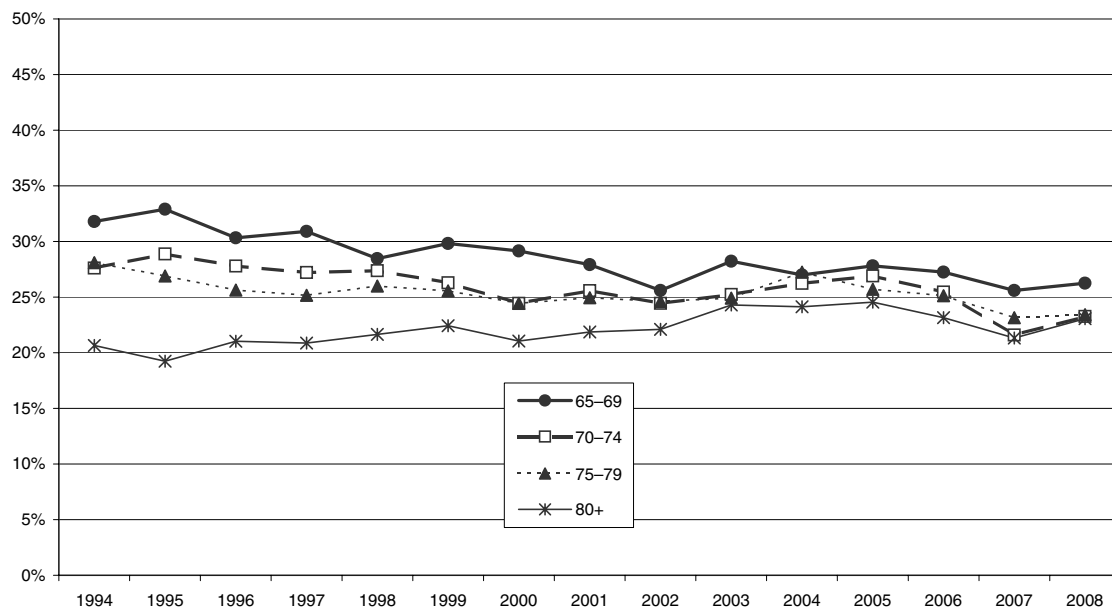
Source: Hewitt Associates.

Figure 3
Percentage of Large Private-Sector Employers That Terminated All Subsidized Benefits for Future Retirees, 2002–2006^a



Source: The Henry J. Kaiser Family Foundation and Hewitt Associates, *Findings From the Kaiser/Hewitt Survey on Retiree Health Benefits, 2002–2006*.
^a In 2002, survey asked employers about changes made to plan during previous two years. In 2003–2006, employers were asked about the past year.

Figure 4
Percentage of Retirees With Employment-Based Health Benefits in Own Name, by Age, 1994–2008



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March Supplements.

Nongroup Market Coverage Rates

Because of the decline in the likelihood that employers are offering group retiree health benefits and the concomitant decline in the likelihood that retirees have health benefits through a former employer, an increase was expected in the percentage of retirees getting health coverage on their own—directly from an insurance company—either through more traditional Medicare supplement plans that provide additional coverage beyond traditional Medicare coverage, or by replacing traditional Medicare with more comprehensive privately insured Medicare Advantage plans. These data are also presented for 1994–2008 by age cohorts (Figure 5). For each age cohort, the likelihood that a retiree purchased coverage directly from an insurer declined between 1994 and 2008.

In contrast to the findings on employment-based retiree health benefits to supplement Medicare, it was found that, in 1994, older cohorts of retirees were more likely than younger cohorts to purchase health benefits directly from an insurance company. However, there was no increase in the overall proportion of retirees purchasing coverage from an insurance company; instead, the opposite occurred. The percentage of retirees ages 65–69 purchasing insurance from an insurance company to supplement Medicare decreased from 29 percent in 1994 to 25 percent in 2008. The percentage of retirees ages 70–74 purchasing insurance to supplement Medicare fell from 35 percent to 28 percent between 1994 and 2008. The percentage of retirees ages 75–79 purchasing supplemental insurance fell from 38 percent to 30 percent. And the percentage of retirees age 80 and older with supplemental coverage to Medicare purchased directly from an insurer fell from 42 percent to 30 percent.

Mitigating Factors

While the drop in the percentage of Medicare-eligible retirees with health benefits through a former employer has been significant for retirees under age 80, it is possible that the decline in coverage would have been even larger had it not been for changes in the work status of individuals eligible for Medicare. In 1995, 59 percent of individuals ages 65–69 considered themselves retired (Figure 6). However, by 2008, 53.6 percent considered themselves retired. In contrast, the percentage reporting that they were working increased from 28 percent in 1995 to 35 percent in 2008.

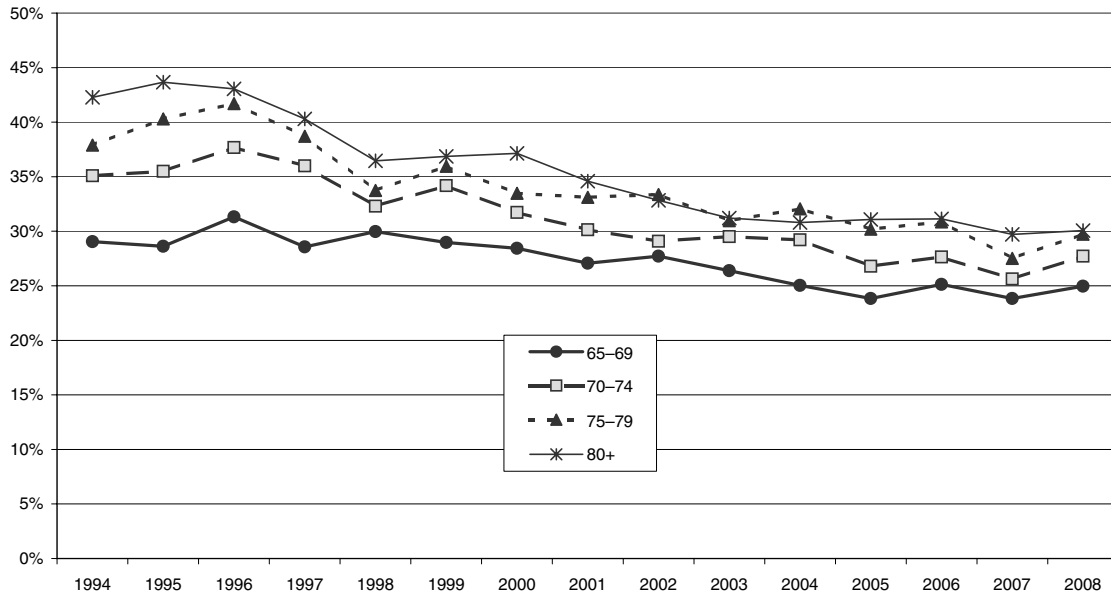
Among older age cohorts, the percentage who were working has increased as well. In 2008, 22 percent of 70–74-year-olds reported that they worked, up from 16 percent in 1995. Similarly, the percentage of 75–79-year-olds reporting that they were working increased from 9 percent in 1995 to 13 percent in 2008.

Previous research has found a strong link between the availability of retiree health benefits and the decision to retire (Fronstin, 1997). Workers often remain in the labor force longer than they expected in order to maintain health insurance. If those workers continuing to remain in the labor force were more likely than those choosing to retire to have retiree health benefits, using the percentage of retirees with health benefits through a former employer to examine the impact of FAS 106 will not provide an accurate picture of the accounting rules' effect on the availability of retiree health benefits. More research is needed to better understand why individuals age 65 and older would choose to remain in the labor force.

With more individuals age 65 and older remaining in the labor force, it is also possible that the drop in retiree health benefits among those retired would be offset by an increase in the percentage covered by employment-based health benefits either through employee or dependent coverage through a working spouse or domestic partner. The trend in dependent coverage for retirees is shown in Figure 7. Note that the data include both individuals who have coverage as a dependent through someone who has remained in the labor force and those who are receiving retiree health benefits as a dependent. There is some evidence that the percentage of retirees age 65 and older with employment-based coverage as a dependent has increased, although overall the changes are not large. For example, the percentage of retirees ages 65–69 with employment-based health benefits as a dependent increased from about 12 percent in 1994 to 14 percent in 2005, but fell back to 12 percent in 2008. Similarly, the percentage of retirees ages 70–74 covered as a dependent increased from 9 percent in 1994 to 11 percent in 2007, but then dropped to 9 percent in 2008. So while the longer-term trend is upward, any gains in dependent coverage were essentially wiped out in just the last few years.

Medicaid² also has not picked up the drop in retiree health benefits among retirees. The percentage of retirees with Medicaid has been mainly in the 8–9 percent range and has not varied much by age (Figure 8).

Figure 5
Percentage of Retirees With Individually
Purchased Coverage, by Age, 1994–2008



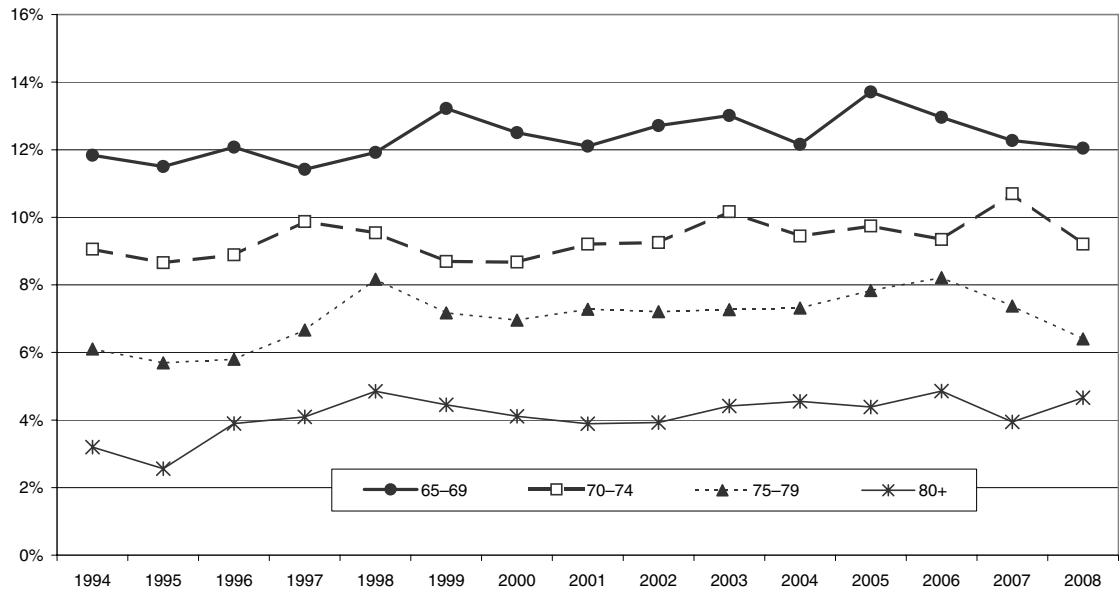
Source: Employee Benefit Research Institute estimates from the Current Population Survey, March Supplements.

Figure 6
Main Activity, by Age, Persons Age 65
and Older, Selected Years, 1995–2008

	1995	2000	2005	2008
(percentage)				
65–69				
Working	28%	31%	32%	35%
Retired	59	57	56	53
Ill or disabled	8	8	8	8
Homemaker or other	5	4	4	3
70–74				
Working	16	19	20	21
Retired	72	71	70	70
Ill or disabled	7	6	7	6
Homemaker or other	5	3	3	2
75–79				
Working	9	10	12	13
Retired	78	80	79	80
Ill or disabled	9	6	7	6
Homemaker or other	5	3	3	2
80–84				
Working	5	6	7	8
Retired	82	85	86	84
Ill or disabled	9	7	5	7
Homemaker or other	4	2	2	1
85+				
Working	3	3	3	4
Retired	82	83	88	88
Ill or disabled	12	10	7	6
Homemaker or other	4	4	3	1

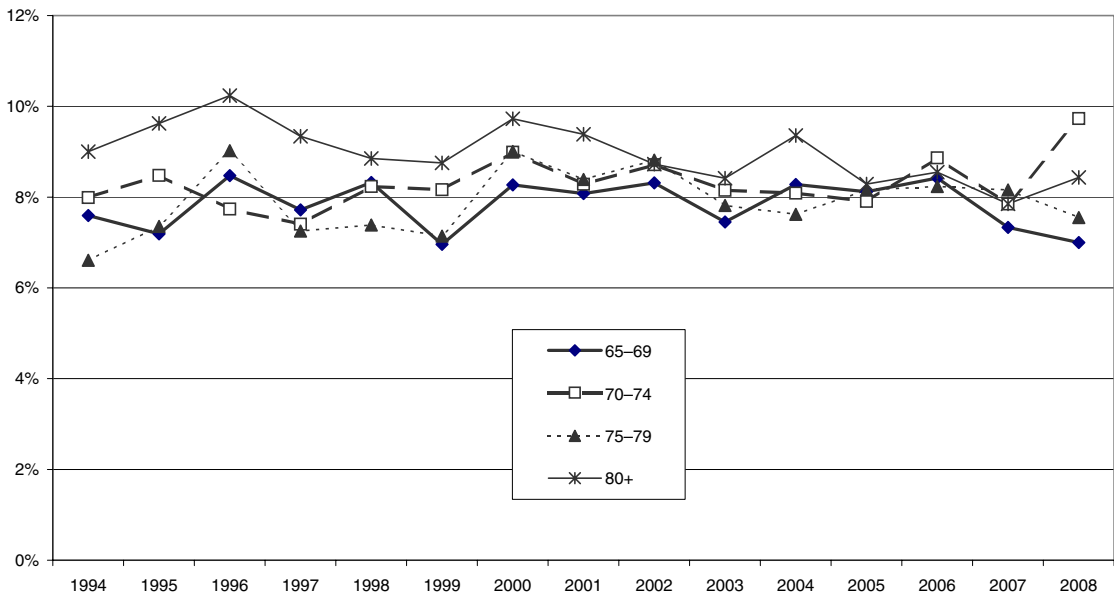
Source: Employee Benefit Research Institute estimates from the Current Population Survey, March Supplements.

Figure 7
Percentage of Retirees With Employment-Based Coverage as a Dependent, by Age, 1994–2008



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March Supplements.

Figure 8
Percentage of Retirees With Medicaid, by Age, 1994–2008



Source: Employee Benefit Research Institute estimates from the Current Population Survey, March Supplements.

Conclusion

The percentage of employers offering retiree health benefits has been falling since the mid-1990s. As a result, the percentage of retirees age 65 and older with retiree health benefits has fallen, too. With health care costs continuing to rise, and new accounting rules beginning to affect public-sector employees, this trend can be expected to accelerate, barring substantial policy changes. Hence, an increase in the percentage of retirees with coverage that they purchased on their own to supplement Medicare would be expected. However, this was not found: Instead, the percentage of retirees purchasing coverage directly from insurers fell.

The decline might have been larger had there not been an increase in the percentage of individuals age 65 and older who were working. The decline in employment-based health benefits makes it harder for retirees to plan for health care expenses in retirement (Fronstin, Salisbury, VanDerhei, 2008 and 2009). More research is needed in this area to better understand the impact that the weak economy has on older individuals.

References

- Chollet, Deborah. "Retiree Health Insurance Benefits: Trends and Issues." in *Retiree Health Benefits: What Is the Promise?* Washington, DC: Employee Benefit Research Institute, 1989.
- Employee Benefit Research Institute. *Measuring and Funding Corporate Liabilities for Retiree Health Benefits*. Washington, DC: Employee Benefit Research Institute, 1988.
- _____. *Retiree Health Benefits: What Is the Promise?* Washington, DC: Employee Benefit Research Institute, 1989.
- Fronstin, Paul. "Retiree Health Benefits: What the Changes May Mean for Future Benefits." *EBRI Issue Brief*, no. 175 (Employee Benefit Research Institute, July 1996).
- _____. "Employee Benefits, Retirement Patterns, and Implications for Increased Work Life." *EBRI Issue Brief*, no. 184 (Employee Benefit Research Institute, April 1997).
- _____. "Retiree Health Benefits: Trends and Outlook." *EBRI Issue Brief*, no. 236 (Employee Benefit Research Institute, August 2001).
- _____. "The Impact of the Erosion of Retiree Health Benefits on Workers and Retirees." *EBRI Issue Brief*, no. 279 (Employee Benefit Research Institute, March 2005).
- _____. "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement." *EBRI Issue Brief*, no. 295 (Employee Benefit Research Institute, July 2006).
- _____. "Scrambling for Health Insurance Coverage: Health Security for People between 55–64 Years of Age." Statement for the United States Senate Special Committee on Aging, April 3, 2008.
- Fronstin, Paul, and Dallas Salisbury. "Retiree Health Benefits: Savings Needed to Fund Health Care in Retirement." *EBRI Issue Brief*, no. 254 (Employee Benefit Research Institute, February 2003).
- _____. "Health Care Expenses in Retirement and the Use of Health Savings Accounts." *EBRI Issue Brief*, no. 271 (Employee Benefit Research Institute, July 2004).
- Fronstin, Paul, Dallas Salisbury, and Jack VanDerhei. "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model." *EBRI Issue Brief*, no. 317 (Employee Benefit Research Institute, May 2008).
- _____. "Savings Needed for Health Expenses in Retirement: An Examination of Persons Ages 55 and 65 in 2009." *EBRI Notes*. No. 6 (Employee Benefit Research Institute, June 2009): 2–11.

Endnotes

¹ Generally, people age 65 or older.

² The federal-state health care program for poor.



Notes

EBRI Employee Benefit Research Institute Notes (ISSN 1085-4452) is published monthly by the Employee Benefit Research Institute, 1100 13th St. NW, Suite 878, Washington, DC 20005-4051, at \$300 per year or is included as part of a membership subscription. Periodicals postage rate paid in Washington, DC, and additional mailing offices. POSTMASTER: Send address changes to: *EBRI Notes*, 1100 13th St. NW, Suite 878, Washington, DC 20005-4051. Copyright 2010 by Employee Benefit Research Institute. All rights reserved, Vol. 31, no. 1.

Who we are

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

What we do

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

Our publications

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

Orders/ Subscriptions

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

Editorial Board: Dallas L. Salisbury, publisher; Stephen Blakely, editor. Any views expressed in this publication and those of the authors should not be ascribed to the officers, trustees, members, or other sponsors of the Employee Benefit Research Institute, the EBRI Education and Research Fund, or their staffs. Nothing herein is to be construed as an attempt to aid or hinder the adoption of any pending legislation, regulation, or interpretative rule, or as legal, accounting, actuarial, or other such professional advice.

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