

---

# Do Employers/ Employees Still Need Employee Benefits?

---

Edited by Dallas L. Salisbury

**EBRI**  
**EMPLOYEE**  
**BENEFIT**  
**RESEARCH**  
**INSTITUTE®**

EDUCATION  
& RESEARCH  
FUND

© 1998 Employee Benefit Research Institute  
Education and Research Fund  
2121 K Street, NW, Suite 600  
Washington, DC 20037-1896  
(202) 659-0670  
Web site [www.ebri.org](http://www.ebri.org) [www.asec.org](http://www.asec.org)

All rights reserved. No part of this publication may be used or reproduced in any manner whatsoever without permission in writing from the Employee Benefit Research Institute Education and Research Fund except in the case of brief quotations embodied in news articles, critical articles, or reviews. The views expressed in this publication 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.

### **Library of Congress Cataloging-in-Publications Data**

Do employers/employees still need employee benefits? / edited by Dallas L. Salisbury.

p. cm.

Includes bibliographical references.

ISBN 0-86643-090-3

1. Employee fringe benefits—United States. 2. Compensation management—United States. 3. Labor economics—United States.

I. Salisbury, Dallas L. II. Employee Benefit Research Institute (Washington, D.C.)

HD4928.N62U6273 1998

331.25'5'0973—dc21

98-19898  
CIP

**The premier organization**

**for employee benefits research**

**EBRI**  
**EMPLOYEE**  
**BENEFIT**  
**RESEARCH**  
**INSTITUTE®**

**EDUCATION  
& RESEARCH  
FUND**

The Employee Benefit Research Institute (EBRI) was founded in 1978 with the mission of: “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 nonprofit, non-partisan organization committed to original public policy research and education on economic security and employee benefits.

EBRI does not lobby or endorse specific approaches. Rather, it provides balanced analysis of alternatives based on the facts. Through its activities, EBRI is able to fulfill its mission.

Since its inception, EBRI’s membership has grown to represent a cross section of pension funds; businesses; trade associations; labor unions; health care providers and insurers; government organizations; and service firms, including actuarial firms, employee benefit consulting firms, law firms, accounting firms, and investment management firms.

Today, EBRI is recognized as one of the most authoritative and objective resources in the nation on employee benefit issues—health care, pensions, and economic security.



# Table of Contents

Preface .....	vii	4. Do Employee Benefits Figure in Top Management's Business Agenda? <i>Francis N. Bonsignore</i>	
About the Authors .....	ix	Meeting Business Objectives .....	21
Introduction: Do Employers/Employees Still Need Employee Benefits? <i>Christopher R. Conte</i>		People Resources .....	21
Introduction .....	1	Incentives and Rewards .....	21
Forces of Change .....	1	The Prevailing Business Logic .....	22
Rising Costs, Tighter Controls .....	2	A Changing Context .....	22
Benefits and Employee Performance .....	3	The Employer's Decision Context .....	23
Meeting Employee Needs .....	3	The Questions .....	23
Policy Implications .....	4	Benefit Types .....	23
Getting to Yes .....	5	The Employer as Distributor .....	24
1. Employee Benefits: Here Today, Here Tomorrow <i>Michael R. Losey</i>		The Provision of Core Benefits .....	24
Introduction .....	7	The Employer's Life Cycle .....	25
Core Benefit Packages .....	7	Leverage .....	25
Rising Costs .....	8	"New Age" Benefits .....	25
Conclusion .....	9	Employers' Expectations .....	25
2. Do Employers/Employees Still Need Employee Benefits? Yes. <i>Charles G. Tharp</i>		Employees' Valuation of Benefits .....	26
Introduction .....	11	Employers' Valuation of Benefits .....	26
Rapid Change .....	11	The Changing Context .....	26
Plan Replacement .....	12	A New Model .....	26
Conclusion .....	13	5. Benefits: Labor Strategy for the Future <i>Ronald Blackwell</i>	
3. The New Deal: Employee Responsibilities <i>Dale L. Gifford</i>		Introduction .....	29
Introduction .....	15	Different Views of Success .....	29
The Volunteer Organization .....	15	Historical Perspective .....	29
Broadening the Definition of Benefits .....	16	Job Insecurity and Knowledge Hoarding .....	30
Providing Challenging Work .....	16	Pension Assets .....	31
Shared Responsibility .....	17	Conclusion .....	32
Becoming an Expert Buyer .....	18	6. The Key to Successful Downsizing: Partnership <i>James King</i>	
Conclusion .....	18	Introduction .....	33
		Reinventing Government .....	33
		Work Place Partnerships .....	33
		Privatizing Investigations .....	34
		Expanding Diversity .....	34
		Measuring Total Compensation .....	35
		Conclusion .....	36

7. The Gradual Erosion of Employment-Based Benefits <i>Robert D. Reischauer</i>	
Introduction .....	37
Seven Conditions That Support the System of Employment-Based Benefits .....	37
The Public Policy Response .....	40
Conclusion .....	40
8. Employers Need to Make the Case for Employee Benefits <i>James A. Klein</i>	
Introduction .....	43
The Current System .....	44
Conclusion .....	44
9. Pension Issues as Viewed by the Pension Benefit Guaranty Corporation <i>David M. Strauss</i>	
Introduction .....	47
Meeting the Challenges .....	47
The Virtual Town Hall .....	47
Minimizing Red Tape .....	48
The ERISA Mandate .....	48
Conclusion .....	49
10. A Congressional View: The Case for Employment-Based Benefits <i>Congressman Earl Pomeroy</i>	
Introduction .....	51
An Erosion of Private Benefits .....	51
Financial Pressure and the Erosion of Benefits .....	51
The Positive Effect of Employee Benefits .....	52
The Future of Benefits .....	53
Conclusion .....	53

## Appendices

A. Pink Slips, Profits, and Paychecks: Corporate Citizenship in an Era of Smaller Government <i>Robert B. Reich</i>	
Introduction .....	55
The End of the Social Compact .....	56
The Trap of the Old Economy .....	56
The Consequence .....	57
The Limits on the Public Sector .....	58
Corporate Responsibility Revisited .....	58
A Modest Proposal .....	59
A National Discussion .....	60
Conclusion .....	60
B. Job Creation and Employment Opportunities: The United States Labor Market, 1993–1996 <i>Council of Economic Advisers with the U.S. Department of Labor, Office of the Chief Economist</i>	
Executive Summary .....	61
Introduction .....	62
Job Creation .....	62
The Quality of Jobs .....	62
The Challenges Created by a Dynamic Labor Market .....	66
C. Bibliography .....	69
D. List of Policy Forum Attendees .....	71



---

## *About EBRI-ERF Policy Forums*

The Employee Benefit Research Institute-Education and Research Fund (EBRI-ERF) holds two policy forums per year. The goal of the policy forums is to bring together a cross-section of EBRI sponsors, congressional and executive branch staff, benefit experts, and representatives from academia, interest groups, and labor to examine public policy issues. It is a roundtable discussion featuring verbal and written exchange among speakers and participants. The roundtable format is designed to encourage discussion.

Past EBRI-ERF policy forums include:

- 04/30/97 “Retirement Prospects in a Defined Contribution World”
- 12/04/96 “Assessing Social Security Reform Alternatives”
- 04/30/96 “Comprehensive Tax Reform: Implications for Economic Security and Employee Benefits”
- 12/07/95 “The Changing World of Work and Employee Benefits”
- 05/11/95 “When Workers Call the Shots: Can They Achieve Retirement Security?”
- 10/26/94 “The Future of Employment-Based Health Benefits”
- 05/04/94 “Retirement in the 21st Century: Ready or Not?”
- 10/06/93 “The Changing Health Care Delivery System”
- 05/05/93 “Pension Funding and Taxation: Achieving Benefit Security”
- 12/01/92 “Rationing: Making Choices and Allocating Resources in the Health Care Delivery System—  
Implications for Access, Quality, and Costs”
- 04/29/92 “Paternalism vs. Empowerment: What Benefits Should/Will Employers Provide?”
- 09/25/91 “Retirement Security in A Post-FASB Environment”
- 05/02/91 “Pension Portability and Preservation: Assuring Adequate Retirement Income in the  
21st Century”
- 10/04/90 “Winners & Losers in Reforming the U.S. Health Care System”
- 05/03/90 “Assessing the Implications of Proposals for Pension Fund Taxation”



---

## Preface

Last year *The Wall Street Journal* cited EBRI's interest in the question of whether employers and employees still need employee benefits and posed the question, "Need anyone ask the question?" The need is greater than ever. Note, for example, the discussion of comprehensive tax reform.<sup>1</sup> One of the primary objectives in pushing comprehensive tax reform is tax neutrality, which would eliminate all favorable tax treatment for all employment-based benefits. This would shift the entire system to one of individual choice and could bring an end to employer involvement. And an end to employee benefits as we know them.

The dynamic of the question, "Do Employers/Employees Still Need Benefits?" touches on some of the issues that reflect what is currently happening and what we have been tracking at the Employee Benefit Research Institute for many years concerning the changing structure and nature of employee benefit programs and the nature of decision making as it pertains to these programs.

I recently spoke to the National Coordinating Committee of Multi-Employer Plans, a relatively large entity that represents plans that include 10 million participants in health, welfare, and retirement programs. The opening presentations included three points that relate directly to the need issue. The first was the frequency with which—in the midst of union organizing—many of these member organizations are being asked by younger individuals why they should join an entity that has a retirement program, a defined benefit plan, that may never benefit them. An international president noted that an even more fundamental question is increasingly being heard from the young: "Why are you requiring me to have health insurance? I know I'll never get sick." While many of us have run into these questions, they

were brought up in a discussion of work place changes in an environment of organized labor and jointly trustee plans, where member organizations are facing questions that traditionally they did not face.

For instance, in many bargaining sessions, when the issue of the future of defined benefit plans is discussed, younger union members often asked why they cannot have lump-sum distributions at any time when they leave, as is permitted by so many corporate plans. They also asked, "Wouldn't we be better off with programs with loan provisions and hardship withdrawal?" And, as one speaker said, most of them are not sure that they will live long enough to collect a full pension anyway.

It is clear that the dynamic of the work place is changing. Also at issue is a change over the last 20 years in the environment in which we function. Twenty years ago, shortly into implementation of the Employee Retirement Income Security Act of 1974 (ERISA), the focus was frequently on protecting those who were forced to retire. Even 10 years ago, the front pages focused on downsizing, reengineering, and early outs. The emphasis was not on the challenge of hiring people but on the challenge of getting rid of people.

Today, *The Washington Post*, Commerce Clearinghouse, and the Society of Human Resource Management surveys underline that the bigger challenge is finding individuals to fill positions. For example, included in my renewal statement from an insurance carrier for my life insurance premium was a little flyer. It offered me, as a policyholder, a bonus if I could suggest to them someone who might end up working for them, as they were having difficulty recruiting group sales personnel. It also asked if I could provide them with the names of five individuals they might interview or individuals who I knew were in line to graduate from college. Earlier, on entering a coffee shop, I was surrounded by signs saying, "Help wanted, jobs available, good benefits, health and 401(k)

---

<sup>1</sup> See Dallas L. Salisbury, Ed., *Tax Reform: Implications for Economic Security and Employee Benefits* (Washington, DC: Employee Benefit Research Institute, 1997).

## Do Employers/Employees Still Need Employee Benefits?

provided.” And this organization employs mostly a part-time work force.

These incidents point to the growing usefulness of benefits for recruitment purposes, if they fit the needs of the individual being recruited. As recruitment tools, benefits such as pension plans are increasingly of a slightly different nature than the traditional plans of 25 years ago, which, with the exception of large enterprises like Procter and Gamble, were primarily defined benefit plans in large enterprises, as opposed to defined contribution plans. They had long vesting periods and paid life annuities. They frequently were purposely used as “golden handcuffs” in mid-career, and then as providers of early-out incentives for long-service workers. They were, in short, tools of retention and exit management, not recruitment. Today, the defined contribution plans and new individual account defined benefit plans are primarily recruitment tools. They emphasize wealth accumulation, not retirement security.

Finally, we must consider the effect of international competitive issues. The “new economy” has focused firms on survival. No longer are benefit plans designed against the backdrop of assumed profitability and enterprise continuation. Job entitlement has been replaced by performance measurement.

The first flexible benefits program at TRW preceded the enactment of the Revenue Act of 1978 and the implementation of the first 401(k) regulations in the early 1980s. Literature of 1975, 1976, and 1977 indicates that even before the public policy changes, a fundamental discussion was taking place concerning the appropriate role of employer decision making, of employee choice, and of paternalism. These discussions accelerate as each new merger is announced and as corporations in trouble go “outside” for CEOs unburdened by the

organizations’ past and traditions.

Christopher Conte provides an introduction for this volume that distills the results of a December 1997 policy forum sponsored by the EBRI Education and Research Fund. He tightly weaves the story of why employee benefits fill vital needs, while making clear that objectives have changed.

The chapters that follow add body to the dynamic of change, along with valuable insights on why change will continue. The individual authors provide a glimpse into the thought processes behind employee benefit programs’ changing objectives and discuss where the future is likely to take us.

I thank the sponsors of the Employee Benefit Research Institute for making this forum and book possible, while making it clear that any opinions, errors, or positions taken are those of the authors and not of EBRI, EBRI-ERF, its staff, Members, Trustees, or editors.

I want to thank Pamela Ostuw and Jack VanDerhei for organizing the forum; Cindy O’Connor for production of forum materials and the book; Maureen Richmond, Lynn Miller, and Deborah Holmes for copy editing; and all of the forum authors and participants.

EBRI was founded in 1978 by leaders in the employee benefits field with a vision of building an objective research and education organization. Its mission is to contribute to, to encourage, and to enhance the development of sound employee benefits programs and sound public policy through objective research and education.

This volume carries forward that mission of providing a basis for sound program design. It is dedicated to the founders of EBRI, in this our Twentieth Anniversary year.

Dallas L. Salisbury  
May 1998





---

## About the Authors

**Ronald Blackwell** is Director of Corporate Affairs of the AFL-CIO, a new department charged with supporting unions in their strategic relations with employers at levels ranging from capital stewardship and corporate governance, to organizing and collective bargaining, to work place democracy and technological change. Before coming to the AFL-CIO, Blackwell was executive assistant to the president of the Amalgamated Clothing and Textile Workers Union (ACTWU) and chief economist of UNITE, where he advised union leadership on public policy and union strategy. Before joining in the labor movement, he was an academic dean in the Seminar College of the New School for Social Research in New York, where he taught economics. He is author of “Globalization and the American Labor Movement” in a book edited this year by Steve Fraser and Joshua Freeman, *Audacious Democracy: Labor, Intellectuals and the Social Reconstruction of America*. He was also co-editor of *Worldly Philosophy: Essays in Political and Historical Economics*, a festschrift for Robert Heilbroner.

**Francis N. Bonsignore** is Senior Vice President-Human Resources and Administration with Marsh & McLennan Companies, Inc. Prior to joining Marsh & McLennan Companies, he was a partner and National Director, Human Resources with Price Waterhouse. Bonsignore was formerly a partner with Booz, Allen & Hamilton, the management consulting firm. With Booz, Allen, Bonsignore served both in a client service role—focusing on organization and human resources management issues—and as Vice President, Corporate Personnel. He was with Booz, Allen from 1972 and a partner from 1978 until joining Price Waterhouse in 1986. He joined Marsh & McLennan Companies, Inc., in 1990. Bonsignore received his B.S. degree from Cornell University in 1968 and the M.P.A. degree from the Johnson Graduate School of Management at Cornell in 1971. He has written on numerous management and human resources topics and has also spoken widely before professional audiences on the challenges associated with

the management of professional services organizations.

**Christopher R. Conte** is a freelance writer based in the Washington, DC, area. An EBRI fellow since 1995, he has written on a wide range of social policy issues, including Social Security, Medicare, and welfare reform, for such publications as *Governing Magazine*, *Congressional Quarterly*, and the *AARP Bulletin*. He also has reported extensively on telecommunications policy and the social implications of new information technologies for the Benton Foundation. In addition, he has written major articles about journalism. From 1979 to 1995, Mr. Conte worked in the Washington bureau of the *Wall Street Journal*, where he covered economic policy, banking, and transportation, and edited both foreign and domestic policy coverage. He also wrote the Washington Wire, a weekly column on government and politics, and the Labor Letter, a column on labor and work place issues. Earlier, he worked as a reporter for the *Congressional Quarterly* and the Rutland Herald in Vermont. He holds a B.A. from Harvard.

**Dale L. Gifford** is the Chief Executive of Hewitt Associates LLC. He joined the firm in 1972 as an actuary after graduating with honors from the University of Wisconsin. Prior to becoming Chief Executive, Gifford assisted in the management of the firm’s actuarial practice, led their flexible compensation practice, managed the Southwest and Midwest regions, managed Hewitt Associates’ international operations, and served on the Executive Committee. He is a Fellow of the Society of Actuaries and has been a principal of the firm since 1976.

**James B. King**, director of the U.S. Office of Personnel Management, has been involved in policymaking and administration in local, state, and national government and at major universities for more than 25 years. King was born in Ludlow, MA, graduated from American International

## Do Employers/Employees Still Need Employee Benefits?

College in Springfield, MA, and early in his career taught school and worked in community action. In 1977, he left his position as a director of the Massachusetts Bay Transportation Authority to enter the White House as a Special Assistant to President Carter for Presidential Personnel. In October 1977, he was appointed to the National Transportation Safety Board and later became its chair, a post he held until January 1982. King returned to Massachusetts to be an Associate Vice President at Harvard University and later became a Senior Vice President at Northeastern University in Boston. He has been a senior advisor to Senators Edward Kennedy (D-MA) and John Kerry (D-MA). He is a graduate of the Harvard School of Business Administration's program for senior government managers, is a fellow of Harvard's Institute of Politics, and has been president of the Massachusetts Cultural Alliance. He is a past commander of Disabled American Veterans, Chapter 94, Ludlow, MA. King's nomination by President Clinton to serve as the government's top personnel officer was confirmed by the Senate on April 2, 1993. In addition to serving as OPM Director, King has been chairman of the National Partnership Council, a member of the President's Management Council, and a member of the President's Commission on White House Fellows.

**James A. Klein** is President of the Association of Private Pension and Welfare Plans (APPWP). The APPWP is a Washington, DC, based association representing the broadest reach of the private employee benefits system: company sponsors of employee benefits, plan providers, and benefits professionals. Previously, Klein served as the Deputy Executive Director of the Association. Prior to joining the APPWP, he served as Manager of Pension and Health Care Policy for the U.S. Chamber of Commerce, and before that was an associate in a Washington, DC, law firm specializing in employee benefits. Klein has also served as a legislative assistant for Congressman John J. LaFalce (D-NY). He graduated magna cum laude from Tufts University with a degree in Bioethics and graduated with honors from the National Law Center—George Washington University. He is a member of the District of Columbia bar. He serves on the editorial board of *Managing Employee Health Benefits* and as an advisor to Benefits Council of the American Compensation Association.

**Michael R. Losey**, SPHR, CAE, President and CEO of the Society for Human Resource Management (SHRM), has more than 35 years experience in all areas of human resource management. Before being named to the Society's top position in 1990, Losey served more than 28 years in management and executive level positions with two Fortune 50 organizations. Losey has been active in international human resources and currently serves at President of the North American Human Resources Management Association and is Secretary General of the World Federation of Personnel Management Associations, which links human resources professional organizations around the world. In addition to serving on the SHRM Board of Directors and boards of the Human Resource Certification Institute and the SHRM Foundation, he is a Fellow and director of the National Academy of Human Resources. He holds both Bachelor's and Master's degrees of business administration in industrial relations from the University of Michigan, is a certified Senior Professional in Human Resources (SPHR), and Certified Association Executive (CAE). Losey is a frequent speaker and spokesperson on human resource management issues to the SHRM membership, international groups, organizations, media, and Congress.

**Congressman Earl Pomeroy**, recently elected to his third term in the U.S. House of Representatives, sits on the House Budget and Agriculture Committees and is a member of the House Democratic Leadership Caucus. Pomeroy has emerged as a substantive force on issues ranging from farm policy to overhauling the nation's retirement system, and he has built a reputation as a hard-working, reform-minded lawmaker who believes in applying North Dakota values and common sense to the problems facing our nation. He is a leading congressional expert on the topic of pension and retirement savings reform. In late 1995, he co-founded a bipartisan, bicameral steering committee on retirement issues, which hosted a series of policy seminars during the 104th Congress. Pomeroy earned his Bachelor of Arts degree in political science from the University of North Dakota in 1974 and his law degree from UND in 1979. He undertook graduate research in legal history at the University of Durham in England. Upon graduation, Pomeroy returned to his hometown and practiced law for five years. He was elected to the

State Legislature in 1980 and elected State Insurance Commissioner in 1984. He served as President of the National Association of Insurance Commissioners in 1990.

**Robert D. Reischauer** is a Senior Fellow at the Brookings Institution. From March 1989 until March 1995, he served as the director of the Congressional Budget Office (CBO). He had helped Alice Rivlin, CBO's first director, set up the office in 1975 and served as the Assistant Director for Human Resources and Community Development and later as the Deputy Director. In 1981, Reischauer left CBO to become the Senior Vice President of the Urban Institute. In 1986, he joined the Economic Studies Program of the Brookings Institution as a Senior Fellow, a position that he left when he was named CBO's third director. Reischauer is an economist who has written extensively on federal budget policy, Congress, health and social welfare issues, poverty, and state and local fiscal problems. He has an undergraduate degree from Harvard College and a master's degree in international relations and a Ph.D. in economics from Columbia University.

**Dallas L. Salisbury** is President and CEO of the Employee Benefit Research Institute (EBRI), Washington, DC. He is also Chairman and CEO of the American Savings Education Council (ASEC), a partnership of public- and private-sector institutions that undertakes initiatives to raise public awareness about what is needed to ensure long-term personal financial independence. He is currently a member of the Board of Directors of the National Academy of Social Insurance, the Board of Directors of the Health Project, and the Advisory Board of the National Academy on Aging. He serves on many editorial advisory boards, including those of *Employee Benefit News*, *Benefits Quarterly*, *Employee Benefits Journal*, and *Healthplan: The Magazine of Trends, Insights and Best Practices*. Salisbury has served on the Secretary of Labor's ERISA Advisory Council, the presidentially appointed PBGC Advisory Committee, as a consultant to numerous government agencies and private organizations, and on committees of many professional organizations. He is a Fellow of the National Academy of Human Resources. He has written and lectured extensively on economic security topics. He holds a B.A. degree in finance from the University

of Washington and an M.B.A. in public policy and administration from the Maxwell School at Syracuse University.

**David M. Strauss** is Executive Director of the Pension Benefit Guaranty Corporation (PBGC), a self-financing government corporation that provides insurance for defined benefit pension plans nationwide. PBGC administers two insurance programs covering more than 42 million workers in about 50,000 plans. As Executive Director, Strauss is responsible for the Corporation's operations that involve premium revenues of about \$1 billion, assets of about \$12.5 billion, benefit payments of nearly \$800 million, and benefit obligations to more than 440,000 workers and retirees in nearly 2,400 pension plans. Strauss comes to PBGC with extensive management and policy experience. He brings special understanding of issues important to workers and retirees. He served for nearly four years as Deputy Chief of Staff to Vice President Al Gore, and for 13 years in senior management positions in the U.S. Senate. He was Staff Director to the Senate Committee on Environmental and Public Works and Chief of Staff to Senator John Breaux (D-LA) and the late Senator Quentin N. Burdick (D-ND). In these positions, he advised on a broad range of economic and domestic policy issues, including wage and work place protection, retirement security, health care, welfare, and trade.

**Charles G. Tharp** has been Senior Vice President-Human Resources for Bristol-Myers Squibb Company since January 1993. He is a member of the Management Committee and is active in the strategic management of the company, which he joined in 1987 as Director, Compensation and Benefits. In 1990, Tharp was promoted to Vice President, Compensation and Human Resource Development. Before joining Bristol-Myers Squibb, Tharp was an executive compensation consultant with the international compensation and benefits consulting firm TPF&C. Prior to that, he held human resources positions at PepsiCo, Pillsbury, and General Electric. He holds a Ph.D. in Labor and Industrial Relations from Michigan State University and an M.A. in Economics from Wayne State University. He received his undergraduate degree in business administration and economics from Hope College in Holland, Michigan.



---

# *Introduction: Do Employers/Employees Still Need Employee Benefits?*

by Christopher R. Conte

## ■ Introduction

Just when employment-based benefits have become an accepted part of the economic landscape, their continuation as a key feature of the employment scene and source of financial security for American families is being questioned.

That isn't to say employee benefits are about to disappear any time soon. As Michael R. Losey, president and chief executive of the Society for Human Resource Management, notes, benefits have become such a standard—and substantial—part of the employment relationship that the word “benefits” rarely comes with the modifier “fringe” attached any more. And Francis N. Bonsignore, senior vice president of Marsh & McLennan Companies, Inc., observes that for “mainstream” employers—those who have been around awhile and employ a significant number of people—core benefits, at least, have come to be seen as a “price of entry,” a “source of legitimacy” in the American economy.

But there are signs of change. Employers, facing tough international competition, are questioning the value of benefit programs. Concerned about high costs, many are shifting at least some of the financial burden and risk associated with retirement and medical benefits to employees, and others—especially small and relatively new firms, which account for most job growth—are offering relatively few benefits.

Work forces, meanwhile, are becoming increasingly diverse and individualistic, stretching the capacity of employers to design programs that satisfy widely varied employee needs. And tax and regulatory changes have taken away some of the advantages of employment-based programs while encouraging the growth of alternative sources of benefits outside of the job context.

Clearly, it's a good time to go back to the basics. Employers have good reason to consider the question, notes Rep. Earl Pomeroy (D-ND). To the extent employers withdraw from the benefits arena, the lawmaker writes, pressures will grow for government intervention. And that, he warns, would be no bargain for employers, who would still have to pay much of the cost of benefits (either in new taxes or regulatory costs), but would end up with considerably less flexibility to shape benefit programs in ways that might support their business goals. When it comes to benefits, concludes Pomeroy, employers face a “pay-me-now or pay-me-later” proposition.

## ■ Forces of Change

Why are employment-based benefit programs under stress in the late 1990s, when the U.S. economy is showing unprecedented strength, corporate profits are high, and the government has set relatively modest goals for itself? According to Brookings Institution Senior Fellow Robert Reischauer, a number of forces are contributing to the “slow but steady” reduction in the importance of employment-based benefit plans.

For one thing, an employment-based system works best, notes Reischauer, if the work force is relatively homogenous. Employees are more likely to support a benefits program if they all need roughly the same benefits and if benefit costs are fairly equal for all workers. But today's employees come from a wider range of family backgrounds (single or divorced, with or without children, alone or with aging parents or grandparents). They also have a greater diversity of needs (some work part time and some full time, for instance, and some need basic benefits, while others already get these benefits through spouses). As these differences become more apparent, some workers begin to

## Do Employers/Employees Still Need Employee Benefits?

object to benefits they believe help other employees disproportionately. Support for standardized benefit programs erodes accordingly, Reischauer says.

One response to this problem, of course, has been to give individual workers more freedom to choose among benefits—for instance, by selecting their own customized array of benefits from cafeteria plans. But that can have a corrosive effect too, undermining employment-based benefits as an effective tool for pooling risk.

Changes in public policy, meanwhile, have diminished the economic advantages of employment-based benefits, Reischauer notes. Corporate income tax rates have declined, cutting the value of tax deductions for employer benefits. As the value of the tax subsidy drops, employers have found it more difficult to offer benefits at a lower cost than might be available elsewhere. At the same time, new tax preferences—most notably, tax deductions for individual retirement account (IRA) contributions—have helped create alternatives to employment-based benefits.

There's more. In the not-too-distant past, employers could provide benefits more efficiently than others because of the economies associated with centralized administration and bulk purchasing. But now, mutual funds and health-purchasing cooperatives, among others, can achieve comparable efficiencies for individuals outside of the employment context.

While concluding that employment-based benefits will become less prevalent and less generous in the years ahead, Reischauer predicts that the change won't occur abruptly. "Over the next few decades," he writes, "it's not going to be a rapid avalanche. It's going to be like the melting of a glacier when the environment warms up."

### ■ Rising Costs, Tighter Controls

EBRI's examination of the role of employment-based benefits comes against a backdrop of an increasingly competitive global economy. "We live in a much more unforgiving world," Marsh & McLennan's Bonsignore observes. "Twenty or 30 years ago, a public company might be able to get over a bad year. Today, with the scrutiny that is given by investors and shareholder groups, a bad year may in fact prove to be your last year." In this environment, managers feel more pressure to

justify all their costs—including the cost of benefits. "Benefits are a big cost of doing business, and as a big cost, the shareholders and the CEOs are going to say, 'What am I getting for my money, what's the return on my investment?'" notes the Society for Human Resource Management's Losey. In light of such pressures, benefit costs "must be managed, controlled, and (they must) get a return," he says.

Unfortunately, it's difficult to show much return on "core benefits" such as retirement plans and medical coverage. Many employers see them primarily "as an encumbrance with little or no upside," Bonsignore notes; these benefits are very costly, and, perhaps because they are considered almost a given in many work places, employers can't use them effectively to motivate workers or increase productivity, he argues. That may not mean employers are about to eliminate core benefits—at least "at this point"—but it does suggest that the extent of employers' responsibility to provide them is "up for debate," Bonsignore says. When companies feel pressure to show higher earnings, cutting benefits (or not offering them in the first place), trimming the number of employees covered, or shifting more of the financial burden of paying for benefits to employees are definitely options.

Employers are more enthusiastic about "new age," or "lifestyle," benefits such as employee assistance plans, dependent care, flexible time, and other family-friendly programs, according to Bonsignore. Many employees want these benefits—a point underscored by James King, immediate past director of the Federal Office of Personnel Management, who notes that the Family and Medical Leave Act requiring employers to give employees unpaid leave to deal with family emergencies "proved to be one of the most popular" policy moves of President Clinton's presidency.

Not only are such nontraditional benefits popular, but employers can provide them at relatively low cost, Bonsignore says. And, significantly, many employers believe they get more "leverage" with these benefits compared with traditional ones—that is, offering these benefits, unlike offering core benefits, induces improved employee performance. While the actual impact of these benefits on productivity is hard to measure, their low cost makes them almost a no-lose proposition for employers, he adds.

## ■ Benefits and Employee Performance

Some argue that traditional retirement and health benefits have a large role to play in ensuring corporate success. Charles G. Tharp, senior vice president of Bristol-Myers Squibb Co., argues that high-performance companies must be able to adjust their work forces rapidly as competitive circumstances change. They also need workers who are independent self-starters, who take pride in their work and view themselves as “partners” with their employers rather than as dependents. To nurture these qualities, Bristol-Myers Squibb has sought to move away from traditional benefits programs that bind employees to the company with “golden handcuffs” and toward arrangements that encourage employees to take more responsibility for their own benefits.

Tharp acknowledges that this transformation, often described as abandoning corporate “paternalism” in favor of employee “empowerment,” was designed in part to reduce benefit costs by requiring employees to pay more for their own benefits. But he says the approach also helped “reinforce and support” the “culture” companies must create if they are to survive in today’s competitive economy.

Contracting with outside vendors to administer benefit programs was a key element in this transformation, according to Tharp. With outsourcing, he says, management not only saved money. It also redefined its relationship to employees, transforming itself from being the provider of benefits to being the mechanism through which employees “get access to different networks and an ability to take care of their own needs.” Can companies really reduce their contributions to benefit programs and, at the same time, motivate employees to become more productive? Tharp suggests that they can. With careful design, he says, benefit restructuring can produce a “win-win” situation for management and employees. When Bristol-Myers Squibb decided to hire an outside vendor to administer its benefit programs, for instance, it contracted with a company that also offered employees a wide range of new investment options in company capital-accumulation plans. As a result, even as the company was able to trim \$2.5 million from the \$6 million cost of administer-

ing benefits, employees hailed the change as “our most major benefit improvement,” Tharp says.

Employees haven’t always reacted so enthusiastically to such changes, however. If employers aren’t careful, empowerment can sound to many employees like “the haves” turning to the “have nots,” and saying, “Congratulations, you’re on your own...you have less, but that’s good news for you even if you don’t believe it,” notes Howard Fluhr, president and chief executive of the Segal Company.

Even where employees may not be embittered, they can be overwhelmed by the decisions that empowerment requires them to make for themselves. “Empowerment is a great management word, but it’s a terrifying word to employees,” says one participant. Most employees don’t want to be “empowered,” he says. Rather, they want to be presented fairly simple choices and to know that these choices will meet their needs.

## ■ Meeting Employee Needs

But what are those needs—and what role do benefits play in meeting them? Several participants suggests that benefits rank relatively low in most employees’ hierarchy of needs. When the Society for Human Resource Management asked companies what poses the greatest threat to their ability to retain employees, for instance, benefits ranked seventh—behind higher wages being offered elsewhere, dissatisfaction with potential career development, a feeling of not being appreciated, difficulties balancing work and life, job burn-out, and conflicts with supervisors and coworkers.

This understates the real value of benefits to American families, argues Ron Blackwell, director of corporate affairs for the AFL-CIO. According to Blackwell, benefits are the second most important concern of working people today, ranking behind job security and ahead of wages. Blackwell stresses, however, that good benefit programs also have an important role to play in ensuring that companies thrive. “The high road to competitive success must focus on product quality and customer service first, and must meet the competition through increased productivity, which requires employee commitment,” he notes.

According to Blackwell, working families look to benefits not only for economic security, but

## Do Employers/Employees Still Need Employee Benefits?

also for tangible proof of how committed their employers are to them. When working people—and their unions—see such evidence of employer commitment, their behavior will change in positive ways, he suggests. Labor recognizes that it must find “new ways to engage employers, new ways to help businesses become successful, new ways to help businesses become successful, new ways to deliver income to our workers,” Blackwell says. “But we’re not going to give up our old ways unless...we see a commitment on the employer’s side first and foremost.” Several management representatives agreed that benefits programs play a key role in demonstrating how responsive employers are to employees. But, argues Marsh & McLennan’s Bonsignore, the “new and improved model” for benefits will include such features as choice, customization, and portability—all traits that enhance employee well-being in today’s more competitive and rapidly changing economic environment.

Dale L. Gifford, chief executive of Hewitt Associates, writes that under the new paradigm, employers must be careful to define clearly their responsibilities as well as those of employees, to offer “understandable” plans, to provide employees with the tools to make decisions for themselves, and to serve as “expert buyer” and “quality assurer” for employees. “There are no easy answers,” Gifford says. Employers must “let go of the ‘old deal,’” but they must do so “in a smart way, a kind way,” and at the “appropriate speed.”

A smart, kind approach includes responding to the growing need among employees for education about how they can best achieve their goals in a less paternalistic environment, many forum participants agreed. “The more flexibility you introduce, the more choice you introduce, the more demand you have for advice and guidance,” notes John McCormack, executive vice president of TIAA-CREF.

Employers have devoted considerable resources to education programs, and some new tools are emerging. Jeffrey Johnston, president of Decision Innovations, Inc., for instance, describes a new software tool his company has designed that will enable employees to sort out their own priorities and then compare rival health plans according to some 400 different attributes.

But unresolved questions remain. Employers worry about being held responsible for bad

employee decisions. “The real issue,” one participant says, “is risk...who bears the risk of a poor choice.” He argues that employers and employees must share responsibility: Employers should provide a “reasonable ground” of security—perhaps by selecting sound alternatives for employees—and employees, in turn, must make “reasonable choices.”

## ■ Policy Implications

Still, it’s all but certain that in a world of increased choice, some employees won’t make the best decisions. “There is a very wide range of capabilities (among employees) of understanding what the choices are and what the needs are,” says Segal Company’s president and chief executive, Howard Fluhr. He argues that employers must be careful to meet the needs of the “rank and file,” the “hoi polloi,” for some core of information they really can use to make sound decisions. If too many employees fail to achieve financial security in retirement or are devastated by inadequate medical coverage, the government is sure to step in to try to fix the problem, Fluhr warns.

There are three possible types of government response to the erosion of the employment-based benefit system, according to the Brookings Institution’s Reischauer: to collectivize benefits on a national scale; to try to shore up current approaches through a combination of rhetoric, tax incentives, or regulatory relief; or to patch together programs designed to rescue groups that fall through the cracks of the current system.

Reischauer says he sees “virtually no chance” for at least the next couple of decades that benefits will be nationalized. He also doesn’t hold out much hope that efforts to shore up the existing system will bear much fruit. That isn’t for lack of trying: David Strauss, executive director of the Pension Benefit Guaranty Corporation, describes efforts by his agency and other federal departments to ease administrative and regulatory burdens on pension plans and to encourage wider use of defined benefit plans.

If Reischauer is correct that such efforts are unlikely to reverse current trends, that leaves only his third set of policy responses—trying to patch cracks in the current system as they appear. This approach, too, is already being pursued;

Reischauer cites various health-care programs aimed at helping low-income children whose families lack insurance and the recent expansion of IRAs.

But these efforts could be self-defeating in the long run, according to Reischauer. The more the government creates alternative sources of benefits outside of the employment setting, the less employers and employees will see a need for such programs in the work place. As a result, despite the government's good intentions, these efforts "probably will only make the problem a little bit worse," Reischauer predicts.

"The most likely course is that we'll muddle along," he concludes. "Economic and social forces will continue to erode the rationales for employment-benefits, (and) there will be a very slow erosion of the fraction of the work force that enjoys these benefits."

## ■ Getting to Yes

The best hope for halting or reversing this trend, several forum speakers agree, will be for both government and employers to recognize that the current system has substantial advantages.

"What does the future hold?" asks Rep. Pomeroy. "It depends on corporate America understanding that, in the end, good corporate policy runs concomitant with good public policy, (and on) Congress understanding that the private administration of benefits is a system that is working (and that it) is far and away the most cost-effective way to continue to provide the most good for the most people."

The congressman notes that the "political bargain" that led to the current system—in which employers agreed to provide benefits and government, in turn, lets them do so in a "fairly deregulated environment"—is now being challenged by members of both political parties. On the right, many Republicans would eliminate tax preferences in order to simplify the tax code, while on the left, many Democrats favor regulation or new programs to make up for deficiencies they see in employment-

based arrangements for retirement and health care.

Acknowledging such political pressures, James A. Klein, president of the Association of Private Pension and Welfare Plans, says advocates of the current system must do a better job of demonstrating to Congress that employer involvement still brings substantial social advantages compared with a completely individualized system. The advantages are different than they were 20 or 30 years ago. In today's economy, Klein says, the advantages revolve less around the financial savings to the government and beneficiaries, and more around what employers do to improve the quality of benefits and to educate individuals to be wiser consumers.

"The greatest value of the employment system is the extent to which it helps individuals be more prudent purchasers and consumers of benefits," he says. That point currently "is completely lost on most of the policymakers in Congress," he adds.

In the end, employers and employees alike share an interest in a strong system of employee benefits, concludes EBRI President Dallas L. Salisbury. We need strong institutions to continue producing jobs, he notes. But the success of institutions, in turn, depends heavily on employees' productivity. And that is shaped in part by the commitment employers show to them through cash compensation and benefits.

Current circumstances—especially the increased diversity of the work force—make benefit programs particularly hard to design, Salisbury acknowledges. But for at least the next 17 or 18 years, when projections suggest labor markets will be tight and employers will face challenges attracting and keeping quality employees, well-designed benefit programs will continue to be an important element in employer-employee relations, he predicts.

"The bottom line," says Salisbury, is that employers and employees both will need "thoughtful innovation" and "continued education."



# *Employee Benefits: Here Today, Here Tomorrow*

by Michael R. Losey

## ■ Introduction

Do employers and employees still need employee benefits? As a human resource management executive, I can say YES, employers and employees still need employee benefits. But as the head of a professional association that monitors and seeks to shape legislation and regulation affecting the work place, I can also say that, like so many other things, we can expect change.

Employers still need employee benefits. Employee benefits are a significant component of total compensation and offer employers added flexibility in compensation design. Small start-up firms, for example, may not have the resources to offer competitive salaries and may instead use employee benefits, such as stock options, flexible benefits, and adaptive work schedules to lure employees. On the opposite end of the spectrum, companies in bankruptcy protection may be constructively prohibited from raising wages and may need to ensure they are getting the most out of their current benefits investments, to encourage employees to stay on. At all points in between, employers use employee benefits to create an appropriate balance of wage and nonwage compensation.

Most importantly from an employer perspective, well-designed employee benefits are a central strategy in attracting and retaining employees, especially in a competitive labor market.

## ■ Core Benefit Packages

Today's work force has come to expect at least a core benefit package—health care, pension, and paid leave (sick days, holidays, vacation, etc.)—and employers who do not offer benefits are likely to be at a decided disadvantage in attracting qualified employees. In fact, many employees, especially

employees whose skills and experience place them in high demand, simply will not consider a job that does not include reasonable benefits levels.

As we know, attracting new employees is considerably more expensive than retaining existing employees, and employee benefits are still an element in employee-retention strategies. A recent survey done by the Society for Human Resource Management (SHRM) finds that employee benefits such as health care, 401(k) plans, flexible work schedules, and training and career development are among the most effective strategies for retaining employees. But only in rare cases is an employee really restrained from leaving an employer simply because the employer's benefits package is so good (e.g., postretirement medical insurance, child care or tuition assistance, generous vacation policies, 401(k) contributions, vesting requirements for pensions, stock options, etc.).

That said, it is unlikely that benefits in themselves are now or will be sufficient to retain employees. The SHRM survey, for example, finds that higher salaries elsewhere and dissatisfaction with potential career development at an organization are the two most significant threats to employee retention. Only 11 percent of respondents believe that "better benefits offered by other organizations" pose a major threat to their employee retention. This is complicated by the age-old problem of most employees not fully understanding their benefits anyway.

But, employees need employee benefits. For some employees, employment-based benefits are their only option for obtaining health care, life insurance, or retirement income. Many more employees have come to rely on employment-based benefits to finance medical and dental care, retirement, training and professional development, dependent care, periods of nonwork (e.g., holidays

## Do Employers/Employees Still Need Employee Benefits?

and vacation, sick and disability leave), and a host of other needs. In fact, some of the most popular benefits over the last few years have been those that help employees make the most of their time, including flexible schedules, compressed work weeks, and work at home options.

Beyond what employees need, what they want seems to be endless. Employers are under constant pressure to develop new or expanded benefits to meet the increasingly diverse needs of today's work force. Today's work force, for example, reflects a higher proportion of single-person households, dual career families with children, and families without children than ever before—with each of these constituencies having a different set of needs and interests vis-a-vis employee benefits.

Unfortunately, many employees neither recognize nor understand that employee benefits are not “free.” Typically, they come at the expense of higher wages. Between 1973 and 1995, for example, the real (inflation-adjusted) median weekly income of full-time wage and salary workers dropped 12.7 percent, according to the U.S. Bureau of Labor Statistics. This statistic and others like it have been trotted out by unions, policymakers, and others as evidence of the woeful state of American workers. But what seems to be less widely known, or acknowledged, is that during this same time period, real average hourly compensation actually increased 6.1 percent.

### ■ Rising Costs

The answer to this seeming paradox, of course, is the substantial increase in the amount spent on employee benefits. Some of this increase in benefits costs is due to higher employer payments for statutorily required benefits (e.g., Social Security, workers' compensation, and unemployment insurance). The rest is due to increased costs for voluntarily provided benefits, most notably health insurance, which led to most companies redesigning their health care plans during the 1980s. There is no free lunch. Employers may need to do a better job educating employees, and policymakers, about the implicit tradeoffs between wages and benefits.

Even if demand for new or expanded benefits abates, which is unlikely, I expect we will continue to see greater demand for benefits portability and

flexibility. Ongoing turbulence, or the perception of turbulence, in job markets will continue to feed demand for benefits portability as employees attempt to defy the adage, “You can't take it with you.” The growth of 401(k)s and the enactment of the Health Insurance Portability and Accountability Act of 1996 certainly have moved benefits further in this direction. While beneficial for employees, though, portability threatens to diminish the value of generous benefits as a retention strategy.

I expect we will also continue to see greater demand, from both employers and employees, for flexible benefits. As employers seek to tailor benefits packages in such a way as to control costs while still attracting and retaining individual employees, human resource departments will need to respond with greater flexibility in benefits design. The “one size fits all” benefits strategy is not particularly effective in an environment in which employers need not employees, in the aggregate, but rather specific individuals with specific skill sets.

In the same vein, as the work force has become more diverse, with employees reflecting a broad variety of demographic and economic situations, there will be greater demand from employees for flexible benefits. To truly be a “benefit,” benefits need to be customized to meet employees' individual, and changing, needs. Health insurance coverage, for instance, while still *de rigueur* for most jobs, is simply redundant for many dual-income families who could better benefit by having one spouse drop health coverage in favor of higher wages or other benefits.

This entire discussion of employer and employee needs, however, assumes an “all else being equal” environment. Yet there is another issue, beyond employer/employee needs, that may play a pivotal role in shaping the future of employee benefits by fundamentally altering this environment: U.S. tax policy. Many of the current tax-reform proposals (e.g., flat tax, consumption tax) would reduce or eliminate the tax deductibility of many or all employee benefits, making employee benefits a much more expensive—perhaps a prohibitively expensive—proposition for employers.

In 1997, the Employee Benefit Research

Institute published a series of papers, written by experts representing a variety of viewpoints, examining this issue.<sup>1</sup> Although the authors do not agree on the extent of the reductions, all agree that ending the tax deductibility of employee benefits would reduce the availability of those benefits.

Although employers would be free to continue to offer employee benefits under the current tax reform proposals, they would no longer be able to deduct the cost of these benefits as a normal business expense. As a result, at least some employers would likely discontinue their employee benefits, perhaps offering higher wages in lieu of benefits, and making employees again responsible for their own health care, retirement savings, training, dependent care, disability insurance, etc.

## ■ Conclusion

Policymakers should, therefore, tread carefully. Employers and employees are not the only ones

who need employee benefits: Policymakers, too, need employee benefits. In the United States, employment-based benefits are at the very heart of the social safety net, serving as most Americans' primary source of health care up until age 65 and of retirement income thereafter. (Although health care and pensions are not the only employee benefits woven into the social safety net, they are two of the most common, most expensive, and, from a public policy perspective, most critical employment-based benefits.)

If employment-based benefits wither, policymakers would eventually find they either need to expand government-provided benefits or simply resign themselves to the fact that, due to either ignorance or poor choices, many individuals and families will be worse off. Neither of these alternatives is terribly palatable—or politically viable.

For this reason, I am cautiously optimistic that although the nature of employee benefits may change, perhaps dramatically, over the next 20 years, we will still have these benefits and they will still be a key component of human resource strategy.

---

<sup>1</sup> See Dallas L. Salisbury, ed., *Tax Reform: Implications for Economic Security and Employee Benefits* (Washington, DC: Employee Benefit Research Institute, 1997).

## *Do Employers/Employees Still Need Employee Benefits? Yes.*

by Charles G. Tharp

### ■ Introduction

The topic “Do employers/employees still need employee benefits?” is a provocative subject and one that requires deep and meaningful thought. My initial reaction when asked by Dallas Salisbury to address this issue was to answer, “Of course, we still need employee benefits.” However, upon further reflection, the reasons I get to “yes” are not the usual ones that immediately come to mind when most benefits professionals consider the purpose of their jobs in an organization (e.g., providing security for employees, ensuring their employer’s competitive position in the market place, etc.). Rather, my sense is that benefits are also needed to address a very different set of pressures.

The question was posed as to whether employee benefits are still needed by employers to attract and retain workers. My answer to that question is, “No. Benefits alone do not attract and retain employees.” Rather, if an organization has a positive and open climate, a culture of performance, an orientation toward continuous learning and skill updating, it will very much be able to attract the caliber of employee needed to compete effectively in today’s global economy. This is not to say that companies do not have to maintain at least a minimal package of benefits. If expected “core” benefits are not present, a company risks repulsing those talented individuals it wants. For those of you actively involved in the recruiting efforts of your companies, I challenge you to think of the last time a high-potential candidate based his or her employment decision on the benefits of the company. The general prevalence of employee benefits and the migration of these programs to industry averages have made them much less of a factor in the individual’s decision-making process. So,

reframing the question, not having benefits at least at some threshold level will repulse employees, but the mere presence of a more generous benefits package will not attract and retain employees. The absence of such benefits will send a signal as to how the company feels about its members—perhaps counter to its stated organizational objectives—and will be very negatively perceived by potential employees. So, in truth, benefits do not attract and retain employees but, rather, can repulse prospective employees or make it harder for employees to commit to the objectives of the organization even if they are currently on board.

### ■ Rapid Change

The employee benefits environment is changing rapidly, largely to keep pace with the way companies are changing to accommodate the pressures of the business environment. In the past, employers prided themselves on the personal care and services they were able to provide employees and retirees. Medical claims were often administered in-house, and individualized, face-to-face counseling was available on any benefits subject. In the 1970’s, most companies chose to have their medical plans administered by third parties; in the 1980’s, many companies moved to having their savings plan record keeping done by an outside vendor and in the 1990’s, whatever benefits administration functions that were left behind are now being outsourced. The direction for benefits is to meet the competitive standard in the most cost-effective, least administratively intense way possible.

Historically, long vesting periods for various forms of benefits, requirements around pre-existing condition exclusions, and the general absence of affordable benefits external to a group plan made it very difficult for employees to exercise choice

## Do Employers/Employees Still Need Employee Benefits?

vis-a-vis staying with an employer or joining a new company. This “golden handcuffs” focus, when combined with the advantages of the tax code for employer-provided benefits, served to be a powerful weight around the legs of employees who wished to change employers. Many things have changed over the years, however, and are continuing to change in a way that makes employee benefits less of an issue in employee mobility. The tax code, as we have seen in recent years, is beginning to take employee benefits “retail” to the extent that the tax-advantaged structure afforded to employers is being challenged and those advantages that do exist are being made generally available to self-employed individuals. Besides available tax credits and deductions, we have seen Super IRAs (individual retirement accounts), Keogh plans, and medical savings accounts all getting more support and attention. In the mid-1980’s, the passage of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) loosened the hold that medical benefits had on employees, and in 1997, the Health Insurance Portability and Accountability Act took another step in this direction by addressing the pre-existing exclusion issue. Further, the model of medical care in America has moved rapidly toward managed care, and health maintenance organizations (HMOs) have become widely accepted as a normal vehicle for the provision of health care benefits. Many HMOs can be accessed by individuals who have no employment affiliation, and, in fact, the rates individuals are charged may be similar to those charged an employer based on the HMO’s community rating scheme.

The past pressures and continual threat of medical inflation caused employers to dramatically reshape their medical programs in an attempt to rein in the expense and control the risk. Besides the advent of various managed care vehicles and the development of employer purchasing coalitions, significant “employee cost-sharing” was introduced where heretofore the medical coverage had been “employer provided.” Cost-sharing partnerships of this sort broke one more link in the chain of the 1950’s employee/employer “contract.” Further evidence of the negation of the power of benefits to attract and retain employees is evident by a mere questioning of an employee as to who provides the benefits he or she currently enjoys. Often an employee will answer Cigna, Aetna, United

HealthCare, Kaiser, or some other third party. While I would like to think there is still recognition of the financial and administrative link of those benefits to the employer, it is clear the connection has been weakened in the minds of employees. The impact of FAS 106 on cost-sharing for retiree medical plans is also leading to a time when retirees fortunate enough to have employment-based health care programs may lose much of their connection to the employer as well. And now that HMOs are getting into the Medicare Risk business, the relationship or identification of retirees with the company is being distanced as the HMO is becoming viewed as the primary provider of security for health care needs.

### ■ Plan Replacement

Beyond the health care area, the retirement income schemes that are becoming more and more popular as defined contribution programs or cash balance retirement plans replace traditional defined benefit programs are also increasingly weakening the perceived “employer-provided” nature of these benefits. The new employee/employer contract of partnership, personal accountability, and self reliance moves us away from traditional defined benefit, employer-pay-all plans with their focus on encouraging an employee to remain with a single employer until “normal retirement age.” As 401(k)s and cash balance plans become increasingly popular as substitutes for the traditional defined benefit plan, and provide portability of benefits after a very short vesting period, employees will be less financially and psychologically dependent upon a single employer for retirement benefits. Just as they do for health care now, I suspect that in the near future when many employees are asked where their retirement benefits come from, the answer may reflect identity with a third party such as Fidelity, Vanguard, Merrill Lynch, or some other fund manager with whom they have their self-directed retirement funds invested, as opposed to saying the pension plan of their employer. This trend in retirement benefits mirrors the trend in medical care where the emphasis has been on provider flexibility and network affiliation, rather than merely on an employer.

Where I do agree with the statement that “benefits” are important for attracting and retain-

ing employees is in the area of lifestyle programs and other practices aimed at reinforcing an identification with the goals and objectives of the company and in recognizing and nurturing the diversity of the work force of the modern corporation. Some of the most valued “benefits” offered by Bristol-Myers Squibb are in the area of equity participation in the company—for example, our worldwide all-employee stock option plan called TeamShare and our very attractive company savings plan, which has a company stock match. These benefits provide a linkage with the performance and objectives of the company and the individual employee’s ability to build wealth for the future. Another area that represents an “attractive benefit” is in the flexibility provided by the company in allowing employees to better balance their home and work life. In the early 1970’s, we introduced flextime—a very popular program within the company. Since that time, we have introduced compressed work week schedules (9/80 work weeks) and have numerous employees who telecommute and work at least a portion of the week from their home with computers and modems and others who “share” jobs. These are the benefits of the 90’s and beyond that will help to retain and attract the caliber of employee needed to compete in today’s business environment.

Recognizing that a diverse and high-caliber work force is the true strength of the organization, we have also been introducing a variety of more flexible benefits to address the various needs of our employees. On-site day care is an area being studied for introduction in 1998. Access to medical coverage for same-gender domestic partners and providing such non-traditional benefits as adoption assistance, long-term care insurance, financial planning, and fitness centers have helped to make Bristol-Myers Squibb a more attractive place to work without relying on the enrichment of traditional employer-provided benefits.

As with any human resource intervention, the key to effectiveness is to align the interests of the employee with the long-term interests of the company and make sure that the various compensation and benefit programs are supportive of and consistent with the culture the company wishes to establish. Our company has established a high-performance work culture (which we call our Dynamic Operating Culture) characterized by teamwork, participatory decision-making, individual accountability, continuous learning, and personal growth. Corresponding to the new culture, training, development, and overall skill updating rank among the most desired benefits the company has to offer.

Companies are placing greater emphasis on individual performance and helping employees become more “employable.” While income security is an issue, it is increasingly being recognized that long-term security can best be achieved through personal development and professional growth. Ironically, the presence of high-cost “1950’s, one-size-fits-all benefits” may, in fact, be a precursor to job insecurity as cost-cutting measures may be necessary for an organization to carry this heavy burden.

## ■ Conclusion

In summary, the question of “Do employers/employees still need employee benefits?” is very easy to cast in a positive and resounding “Yes!” How one gets to “yes” is different today than it has been in the past and it will be increasingly different in the future. Benefits that recognize and accommodate the diverse needs of the work force, reinforce the operating culture, and foster high performance and professional growth are the key to attracting and retaining top talent.

## *The New Deal: Employee Responsibilities*

by Dale L. Gifford

### ■ Introduction

It is an onerous responsibility to try to represent the perspective, as well as discuss the responsibility, of all employers—large, small, public, and private. Instead, from the perspective of Hewitt Associates as an employer, I would like to draw some observations in terms of what we encounter working with our clients that is similar to my role in senior management in a midsized organization that is working through technology changes, globalization, and a changing work force. I do not pretend to speak for all U.S. employers or from a global perspective. My focus is to zero in, from the perspective of employee benefits, on what we see as the employers' responsibility to our employees, or, as we refer to them, as our associates.

Our business presents a couple of wrinkles. To some degree, some of our clients and certainly our associates expect us to be a wonderful role model in everything we do. We are expected to have the biggest, the best, the newest, and the most flexible benefits. We actually never live up to those expectations on a consistent basis because they are unrealistic.

### ■ The Volunteer Organization

When I meet with our associates, I often refer to Hewitt Associates as being a volunteer organization. I quickly clarify that this does not mean we are not paid for what we do, like a lot of other volunteer organizations. We are a volunteer organization in that every day our people consciously make a decision that they are going to work for us. I also try to reinforce this concept in our recruiting strategy. Our goal is not to find people who cannot get employed elsewhere. We want people who have choices and elect to work for us.

Increasingly, many organizations are finding that in similar ways, they also are volunteer organizations. In many industries, we live in a different environment than 5 or 10 years ago, and that has different implications for the way we view employee benefits, as well as other aspects of the new employment deal.

There has been much written about the new employment deal, this new arrangement we have with employees, and whether it is moving from paternalism to greater choice, or a number of different characterizations of that transition. We recognize that in all aspects of our business, we need to be an attractive employer. We want to be an employer of choice because we realize that we cannot get people simply because they believe they have to work with us because they cannot work elsewhere, and we cannot simply pay people more. A number of aspects have to be in place to make us an attractive employer as part of this overall deal.

In terms of changing technology, our needs are changing not only in the technological aspect of the work that we do as a business but also in the technology required to translate the individual information in databases into more companywide knowledge, or intellectual capital. So technology is coming at you from a number of different directions. Then, there certainly are a lot of demographic changes relative to 10 or 20 years ago, including some of the diversity aspects and some of the globalization aspects of what we are seeking in our people as we move forward.

These demographic changes generate different needs as well as wants or desires. In many ways, the desires of employees are at least as important as their needs. As one policy forum participant said, most of us actually make decisions on buying houses, buying cars, driving not only at night but in the rain or snow. We make a lot of decisions on our own, and many of them are driven

## Do Employers/Employees Still Need Employee Benefits?

partially by our needs, but a lot of them are driven by our desires. And the same is true for our associates, our employees.

It also is increasingly difficult to define our competition. This certainly is true in the broad industry in which some of us as consultants or service providers are involved, but it also is true for many of the industries represented here. There is such blurring of those lines, so much movement toward deregulation, that when our associates in various sessions ask me, "Well, how are we doing relative to our competitors?" I have to say, "Well, it gets to be actually awfully complex to figure out who our competitors are now." In fact, some of our clients also are competitors in various parts of the business. And in some cases we are changing our business, so it becomes difficult to make comparisons of how are we doing relative to our industry. This occurs not only because of globalization but because of the blurring of lines of competition.

### ■ Broadening the Definition of Benefits

The shrinking role of government also has an impact, not only because of financial constraints in terms of Social Security and other programs but also because the definition of employee benefits is being broadened. Many of us have a greatly expanded definition of employee benefits today, versus 10, 15, or 20 years ago. This is particularly true when you look at work-family, work-life, and alternative work patterns. Many aspects do not fit with the traditional view of benefits consisting of pension plan, medical plan, life insurance, and long-term disability. As the definition of benefits continues to broaden, some natural shrinking of the influence of the government occurs, not only in the United States but on a worldwide basis. This occurs particularly in terms of defining what we can do, what we should do, and what we need to do within the arena of employee benefits.

Certainly other aspects could be added, such as the speed and rate of changes occurring in our business, as well as virtually any business, and our need to be adaptable in our programs, both from a broader human resources point of view and to help people adapt to, be comfortable with, and,

ideally, even be enthusiastic about change. If we could feel comfortable with that change, at least that would be a good step toward the enthusiasm and the embracing of change that most of us ultimately want to have in place.

Also, again in terms of benefits, there clearly is some influence from the great run that we have had in the equity markets over a considerable time period. That has some influence on how not only we, but how our employees overall, feel about benefits and some of the trade-offs and choices that they have to make. The trend toward outsourcing also has some significant impact in terms of the way that the employment deal is being broadly examined and specifically within the employee benefits arena.

### ■ Providing Challenging Work

There are a number of ways you can look at the new responsibilities that we have today as employers under the new deal. Some of these are much more general from a human resource/ business point of view and not as specific to employee benefits. One responsibility relates to providing interesting and challenging work for people to do. We have looked at what motivates people, what commits people, what engages people, whatever verb is used today. From some of our consulting work, we have identified seven different kinds of factors. Our research shows that these factors commit employees, engage them, keep, or retain them in a focused and motivated way. Certainly compensation, pay, and benefits are key elements, but in at least some of the companies we have worked with, the most important factor is the work that people do.

The kinds of questions that arise are, "What are my opportunities?" "What can I move to in the future as I look at how things might change in the future?" Other issues revolve around relationships with managers, co-workers, and the quality of life. "Can I find some reasonable balance between the work and the rest of my life here?" "How do I feel about the leadership of the organization?" "Do I feel like we are going in the right places and that I can make a difference and will have some impact on that?" "Do the culture and purpose of the organization align with what is important to me as an individual?"

Benefits are a subset of one of those seven



factors, and, as others have said, not the driver that is going to grab hold of people. If someone zeroes in on a particular benefit provision in an intensive way, it probably means that there is some underlying question or issue, such as, “How important am I?” or “How much do you value diversity?” Or whatever the question might be related to those benefits. Thus, providing interesting, challenging work and work that is connected to where the business is heading is an important aspect of the ultimate responsibility of an employer, at least if you want to be successful in getting the right people, having them focused, and having them feel good enough to want to stay with you.

## ■ Shared Responsibility

Another key part of the new deal is shared responsibility. We need to be clearer about the responsibility of the employer, as well as the responsibility of each of us as individual employees or, in our terminology, individual associates. We spend quite a bit of time talking about shared responsibility, shared success, and what that means. Along with the responsibility that employees have, they also need to have the right kinds of tools to help them be effective in their jobs. And clearly that also translates into tools to help them be effective in making appropriate decisions. These aren't necessarily the “right” decisions because most of us, even in our own investment plans, make the wrong decisions if you compare everything against the ideal of selecting the absolutely right investment option and turning it into a different investment option at exactly the right time. Much of the responsibility involves training, development, and long-term employability so that you ensure that people can adapt to the tremendous amount of change that we are throwing at them. We need to do that to try to stay at least a half a step ahead of most of our clients. We have given up trying to stay a full step or two ahead of most of our clients because we are all running pretty fast here.

Certainly, one of our overall responsibilities as an employer, but especially from a benefits point of view, is to provide an appropriate level of financial support that allows employees to select those things that are most important to them, those things that rate highest in terms of both their

needs and their wants. We also need to provide benefits that make economic sense for us as a business enterprise because, ultimately, success of the business has a substantial impact on the success of individual employees. So we are working toward what we would view and discuss as a win/win shared kind of environment.

The next step is to be more specific about employee benefit areas. For example, we need to look at the whole retirement area or financial security, mostly defined benefit, defined contribution kinds of plans, and some of the retiree medical would fit into this. Again, there are some parallels with the overall responsibilities. One is defining the responsibility or the roles of the employee and the employer in a way that makes it clearer to individuals. The message is, “You know, here's what we do, here's what your responsibility is,” and you keep communicating that over and over in the process.

But to do that, we also need to recognize that one of our responsibilities is to design programs that are understandable, so that people can determine what will have the bigger impact in terms of their ability to accumulate appropriate funds for retirement, which ultimately is the objective. I am not sure that 10 or 15 years ago we fully understood this goal of people saving and having appropriate amounts of money for retirement. We focused on eligibility rules, investing rules, and early-retirement provisions, and we were not focused quite as much on how people can accumulate more assets. Today, this is a key part of the process, with investment education and the trend toward defined contribution plans.

Another goal is to make these plans as useful as possible so that the right information and the right choices are available. This is not accomplished by handing out a booklet once you make plan changes and then hope that employees can find that booklet three years later when they actually need to do something. The goal is to make that information available on a real-time basis, in a useful, user-friendly way. One reason, common to all of us and certainly all the people in our business, is that everyone says, “I don't have enough time. I don't have enough time to try to find a booklet that was sent to me a couple of years ago, to try to find the right section or to put that together with inserts that might come out from

## Do Employers/Employees Still Need Employee Benefits?

time to time.” So we are trying to provide our people with information more on an electronic basis, an easily accessible basis, using the same kinds of electronic tools that we use for our ongoing work so that people can go in and grab that information when they need it. Or we provide information through voice response systems or benefit center representatives who can answer questions in a quality, efficient, effective way.

This goes back to providing the right kinds of tools, whether it is access or modeling kinds of tools, particularly in the retirement area. Again, the goal is not to try to decide the right choices for individuals but to help them understand what you can learn from historical information, from patterns in the past, and recognize that it is not just about growing at different kinds of rates but that there are risk and reward trade-offs under each type of investment option. Like others, we are very much on the front edge of beginning to use the Internet for some modeling activities for our people or for employees of our clients. But 5 or 10 years from now, this tool will provide an alternative that I think will be much more powerful than some of the things being done on voice response or through benefit center representatives today.

### ■ Becoming an Expert Buyer

Going back to the responsibility of the employer, there is an opportunity and a responsibility to be an expert buyer, to assure that the service providers, whether they are investment managers, outsourcing organizations, or communication consultants, are providing good quality information because those are things that you can do as an employer that individuals simply cannot do.

In terms of health care, issues are very similar to those in the retirement area. As employers, you can provide access that individuals cannot get, such as a wider array of choices as well as some information about the quality of providers. As an industry, we are just beginning to provide some better quality information on health care providers, whether they are plans, health maintenance organizations, individual physicians, or hospitals. As you offer more choices, there is an opportunity and a responsibility to provide more data initially. Then, over time, you would like to progress from supplying data to information to

knowledge. I am not sure that we ever will get to wisdom in that continuum, in helping employees understand everything within the benefits arena.

Problem resolution clearly is a bigger issue in the health care area than it is in the retirement plan area because there are more interactions. So some of the employer's responsibility rests in helping employees through the problem-resolution process. That can be done in a number of ways. Providing tools and encouragement for employees to manage their health also recognizes that these benefits are not restricted to times when employees get sick or hurt; they also can minimize or reduce the chances that employees or family members get sick or hurt and need to access these benefits.

### ■ Conclusion

Again, these are similar issues, from the broader and newer definitions of benefits from a work life point of view. It is easy to talk about wanting to have a win/win scenario between the company and the employees, but certainly our employees, our associates, are constantly watching to see if we really walk the talk. Are we really willing to provide workplace flexibility, knowing that we have expectations to be available and accessible? So, how well do we walk the talk, provide win/win scenarios and really look for those on a broader work life basis, recognizing the pressures that people are under these days?

Part of our responsibility here is to help people understand that the goal is not totally about creating a warm fuzzy environment. We also have business needs, and we need to look for the ways that the needs of the employees overlap or mesh with the needs of the business. It is not always about saying yes but looking for the win/win where the two needs meet.

You already know that there are no easy answers and that this is an ongoing process. Part of it involves letting go of the old deal, doing it in a smart way, in a kind way, in a way that transitions at an appropriate speed. And, ultimately, from a business point of view, it is about maximizing the overall investment or expenditures that are made in benefits. There are large dollars being spent here, and although I would love to say that we figured out the perfect algorithm and applied it in our business to equate benefit expenditures with

ultimate productivity, I would be skeptical of anyone who would say that they are doing anything more than taking baby steps in that direction. But by looking at our responsibility as an employer and examining how we can appropriately engage and connect people with the business, we can provide a ripe area for analysis and for starting to learn more about the impact on turnover and its financial consequences.

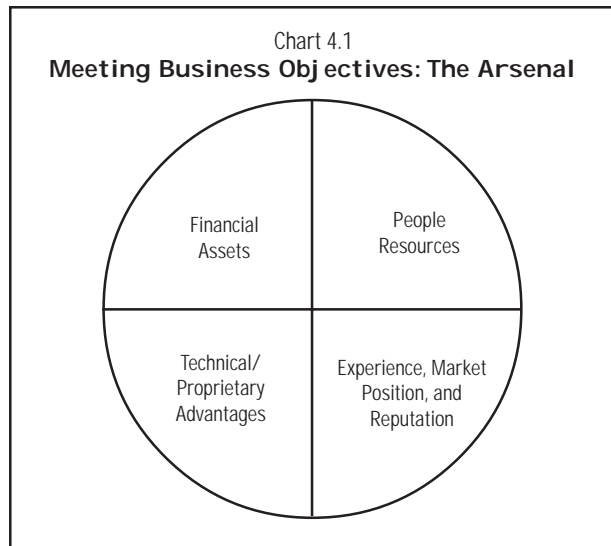
# 4

## *Do Employee Benefits Figure in Top Management's Business Agenda?*

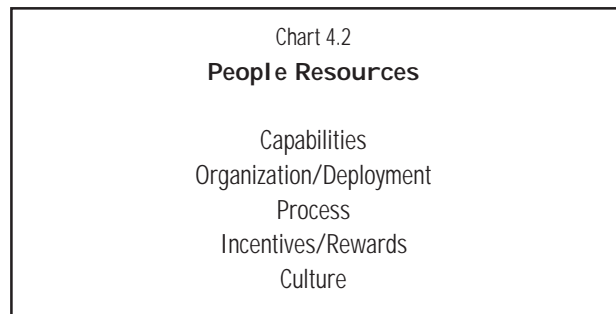
by Francis N. Bonsignore

### ■ Meeting Business Objectives

Do employee benefits figure in top management's business agenda? Whether you are in a professional services business, financial services, manufacturing, or a consumer goods enterprise, you consider the future of the organization in terms of expectations of what top management will deliver and the resources available for a chief executive officer or senior line executive to accomplish the business agenda (chart 4.1).



These resources include broadly defined financial assets, both those that are readily liquid and hard assets that have a value, balance-sheet strength, borrowing capacity, etc. There also are technical or proprietary advantages such as product positioning, trademarks, patents, and copyrights. And, perhaps, in the bottom right quadrant, we too often discount experience, market position, and reputation as elements that can be deployed as part of business strategy.



### ■ People Resources

One level down are the people, the resources available for the accomplishment of the business agenda (chart 4.2). There are a number of people dimensions: their talents, how they are organized and deployed, the processes in place to manage people and carry out the tasks of the business, the incentives and rewards offered for performance and accomplishment of assigned duties, and the culture in which they operate.

Chart 4.3  
**Incentives and Rewards**

Elements	Value/Leverage for Effecting Change
Fixed	↓
Variable	↑
Equity	↑
Perks	—
Benefits	?

### ■ Incentives and Rewards

What is happening on the incentives and rewards front? What is happening with the elements of compensation with which we are all familiar? What

## Do Employers/Employees Still Need Employee Benefits?

is happening in terms of their value or their leverage for bringing about change in the organization? (See chart 4.3.)

The value of fixed compensation, or what we commonly refer to as base salary, for bringing about change is declining. Currently, it is the price of admission. It is what we have to be able to put up to compete in the marketplace for the acquisition of talent. But in terms of how we actually marshal that talent to accomplish business ends, we are not going to be able to leverage fixed compensation.

Variable compensation in the form of cash, whether it be tied to business results or the achievement of individual objectives or group goals, is rising. We read about it all the time. You can pick up the *Wall Street Journal* virtually any day and see some mention of variable pay.

Equity is no longer reserved for the upper echelons of the organization. The concept of stock options reaching down to individuals in the lower branches of the organization is at least a decade old. Equity in the form of contingent stock, or performance-based stock, whether it be for executives or for a broader group of employees, is gaining momentum because of its intrinsic motivational value and its leverage for bringing about change.

While I do not assign perquisites much importance in terms of organization change, the question of whether employee benefits can be used to bring about change needs to be addressed. That is the purpose of this policy forum.

Chart 4.4  
**"Business Logic" Will Prevail**

- Economics are of higher importance for both employers and employees.
- Critical considerations:
  - Tax effectiveness to employers and employees
  - Competitive value to the employer
  - Government mandates
  - Employer flexibility

### ■ The Prevailing Business Logic

Today, there is a new prevailing business logic (chart 4.4). One could argue that it has always existed, but it has a sharper edge today. Namely, economics is more important to both employers and employees. For employees, economics translates into "What I am able to depend upon in terms of

securing my livelihood; whether I have a job and whether that job conforms with what I need to have to meet my particular objectives?" Economics for employers translates into the fact that we live in a much more unforgiving world than we did 20 or 30 years ago, when a public company might be able to grunt and get over a bad year. With the scrutiny given to organizations by investors and shareholder groups today, a bad year may prove to be your last year.

This means that the critical considerations in this new algorithm put a harder edge on economics. And the critical questions to consider are: Is it tax effective to the employers and employees? What is the competitive value to the employer? What am I really getting out of this significant investment, often the largest investment outside of direct pay? What government mandates am I forced to provide? And, also important, how much flexibility do I have? So here we have a changing context.

Chart 4.5  
**A Changing Context**

- Bilateral (employer/employee) relationship has evolved into "trilateral" (employer/employee/external entities).
- Economic impact has migrated from marginal ("fringe" benefits) to central, embedded semi-fixed costs.
- Entitlements are arguable.
- "Costs" have broader meaning; e.g., real cost, profit and loss, balance sheet expenses, opportunity costs, market, and other competitive costs.

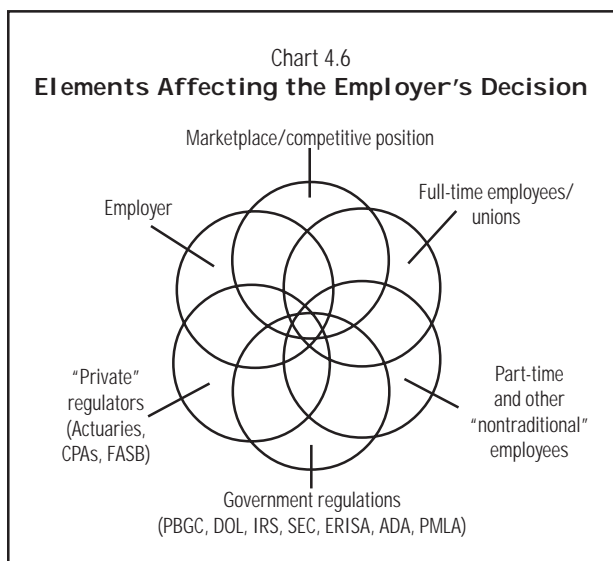
### ■ A Changing Context

The old notion of 50 or 60 years ago that we have a bilateral relationship between employer and employee has evolved in terms of benefits to a trilateral relationship among the employer, employee, and external entities (chart 4.5). The economic impact of employee benefits has migrated from marginal, or what we used to call "fringe," benefits, to central, embedded, semi-fixed costs. They are large, and I characterize them as semi-fixed because even though we can say, "Well, this is a variable cost that we can affect in some particular way," the reality is that, organizationally and politically, these costs can be modified to only a limited extent.

Entitlements, both in terms of government entitlements and those aspects of the employer-employee contract that the employee may have

learned to characterize as entitlements, are arguable. They may not be vulnerable at this point, but they certainly are up for debate in terms of what employer obligations are to shareholders and to the other stakeholders in the enterprise. If my business is under severe pressure to survive, to compete or to achieve a particular level of performance, how bound am I to these arrangements that have crept into the employer-employee relationship over the years and may be inhibiting?

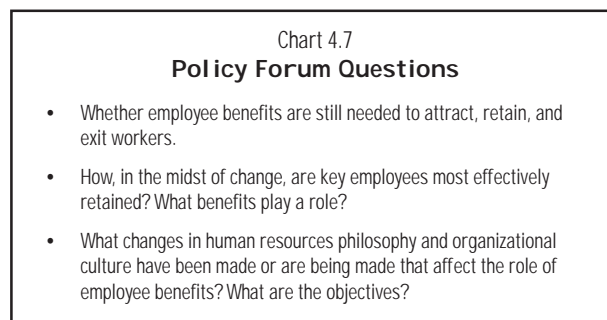
Finally, costs have a broader meaning. Do they represent, in fact, a hit to the income statement? A balance sheet liability? Are there opportunity costs? Could I make better use of the dollars that I am investing in employee benefits? Or are there market costs, or other competitive costs, that are affected by my acting or not acting?



## ■ The Employer's Decision Context

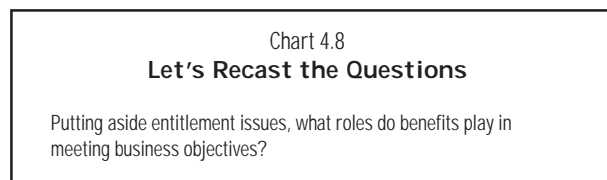
The employer's decision context is fairly complex (chart 4.6). In addition to the employer, the employer's relationship to the respective marketplace and competitive position, we have full-time employees in nonunion settings, unionized employees, the advent of part-time work, and what we have come to label as nontraditional employees. For those who doubt the legitimacy of this latter group, the recent UPS strike brought home the fact that such arrangements are absolutely a front-and-center issue today. A host of private regulators—actuaries, CPAs, the Financial Accounting Standards Board—as well as a plethora of government regulations affect what happens. This does not

disturb me too much because the more complex this picture, the more opportunity for one of our significant businesses to assist employers in sorting out all this. So there is a silver lining!



## ■ The Questions

Let's recapitulate this policy forum's questions: Are employee benefits still needed to attract, retain, and exit workers? (See chart 4.7.) How, in the midst of this change, are key employees most effectively retained? What role do benefits play? And what changes in human resources philosophy and organizational culture have been made, or are being made, that affect the role of employee benefits?



I would not presume to try to answer all these questions, so I boiled them down into one question that, excluding the entitlement issues, is: "What roles do benefits play in meeting business objectives?" (See chart 4.8.)

## ■ Benefit Types

To get a better handle on what employee benefits are, I have derived my own shorthand with four categories (see left column of chart 4.9). The first category is government-mandated benefits: Social Security, disability, and workers' compensation. A principal characteristic of these is that they are rules-driven. We can question the rules, we can send new people to Congress to change the rules, and we can go to the Conference Board or to organizations like the Employee Benefit Research Institute and learn about how those rules may

## Do Employers/Employees Still Need Employee Benefits?

Chart 4.9  
**Benefits Can Be Segmented into Broad Subsets**

Employee Benefits Category	Examples	Principal Characteristics
Government-mandated benefits	Social Security, disability, workers' compensation	Rules-driven entitlements
"Core" benefits	Medical, postemployment security programs	Aggregate cost driven; semi-fixed business costs
"Lifestyle" benefits	Employee assistance programs, work/family, dependent care	Employee selected and unit cost driven
"Custom" and other benefits	Noncore benefits, flexible savings accounts/cafeteria plans	Employee-funded and employee relations driven

evolve. But we are stuck with the rules.

From an employer's point of view, core benefits—medical and post-employment security programs being the most prominent—tend to be looked at in terms of aggregate cost. It is a big number. How is that big number changing year to year? And, as mentioned, are they actually semi-fixed? We can play with them around the edges a bit, but it takes a long time to change or reverse directions, and sometimes we declare victory by virtue of the fact that the number remains flat.

A third category is lifestyle benefits, such as employee assistance plans, work/family facilitating services, and dependent care. These are employee-selected and driven by unit costs. They are capitation-type programs. If, in fact, the employer can provide that particular service and be deemed to be responsive, you can go ahead and offer it, but it is a selection on the part of the employee. And lastly, what I call custom and other benefits are not core benefits. These are, for example, flexible spending accounts and cafeteria plans that are largely employee-funded, pretax programs. From the employer's point of view, their value is that they contribute in some way to effective employee relations.

### ■ The Employer as Distributor

What role do benefits play in achieving the employer's business agenda? One reality is that the employer clearly has become the distributor of

Chart 4.10  
**The Employer Has Become the "Distributor of Choice"**

- Public policy has supported this.
- Cost of providing the kinds or the levels of employee benefits on an individual-payer basis are beyond the economic means of most workers.
- The financial leverage employers have on third-party benefit "vendors" (e.g., insurers, money managers) and scale are key (delivery efficiencies).
- Favorable tax treatment for employer programs reinforces employer advantages.

choice (chart 4.10). Public policy has supported this. The costs of providing the types and levels of employment benefits that have been institutionalized among large, mature employers are beyond the means of most workers to provide for themselves on an individual payer basis. There is financial leverage among employers on third-party providers, whether they are insurers or money managers, and there are opportunities for achieving some economies of scale in terms of delivery capabilities. In our own organization, one of the areas to which we see this leverage being applied now is the rationalization of the number of health maintenance organizations (HMOs) and the agreements and contractual provisions we have with HMOs across the United States. And lastly, favorable tax treatment for employer programs has reinforced the advantages that accrue to employers for providing these programs.

### ■ The Provision of Core Benefits

Clearly, in a competitive world, mainstream employers—large organizations, established organizations, not start-ups and not small employers—are bound to provide the core benefits (chart 4.11). It is the price of entry and a source of legitimacy; employees expect such plans. Even when core benefits plans are comparable, they differ in terms of how critical the provision of a particular program is to the labor market and the nature of that labor market. The particular value to individuals also varies by industry and labor market.

Levels of benefits are different as well. Ratios of employee-employer plan funding are no longer sacrosanct. The fact that a certain cost-sharing arrangement existed for a long period of time does not mean it is inviolate. If business

Chart 4.11  
**Competition Forces “Mainstream”  
 Employers to Provide “Core” Benefits**

- Employer’s “price of entry” and source of legitimacy
- Employees “expect” such plans
- Comparable plans vary as to:
  - Labor market criticality
  - Levels of benefits
  - Ratios of employer/employee funding
  - Impact on employer business economics

conditions warrant, these ratios are being changed. And the impact on the employer’s business economics is a front-and-center issue.

## ■ The Employer’s Life Cycle

Clearly, the organization’s position on the maturity curve and in its own life-cycle can drive benefits (chart 4.12). If we look at those mainstream organizations at the extreme as being the established, mature firms that commonly have been the leaders in terms of providing core benefits, there is modest variability and core benefits are considered semi-fixed costs of doing business. On the other extreme of that maturity curve, for the classic start-ups and small organizations, certainly those resulting from the U.S. technology boom, there is a natural propensity on the part of management to try to avoid some or all of the institutionalization of these benefits costs by using equity as an offset and a much more attractive compensation vehicle.

Chart 12  
**Company Maturity and “Life Cycle”  
 Can Drive Benefits**

At the extremes ...

- Established, mature firms commonly provide at least the “core” benefits (i.e., “variable” costs of benefits viewed as “semi-fixed” costs of doing business).
- Classic “start-ups” avoid some or all benefits, using equity as primary compensation vehicle.

## ■ Leverage

Can benefits be leveraged? I believe core benefits rarely serve as motivators or enablers of enhanced performance. They are the price of participation and, in effect, large employers view them as an encumbrance with little or no upside (chart 4.13).

Chart 4.13  
**But, Can Benefits Be Leveraged?**

- “Core” benefits don’t often serve as motivation vehicles or enablers of enhanced performance.
- “Price of participation,” in effect, becomes an encumbrance with little or no upside.

## ■ “New Age” Benefits

“New age” benefits are often characterized not only as desirable on the part of the employee but, potentially, as performance enhancers (chart 4.14). We can provide work, family, or dependent care programs at relatively modest cost. Nontraditional work arrangements require programs that can be customized, and these types of benefits fit in nicely. But the gains and the price-value relationship are difficult to measure in terms of whether they actually contribute to any productivity improvement or greater satisfaction that leads to economic gain. Thus we come back to the consideration that as they are relatively low cost, why would you forego them?

Chart 4.14  
**So Called “New Age” Benefits Are  
 Positioned as Performance Enhancers**

- Work/family, dependent care programs, and the like respond to employee issues at relatively modest cost.
- Nontraditional work arrangements require programs that can be customized.
- Gains and price/value are difficult to measure.
- The cost is relatively modest.

## ■ Employers’ Expectations

What are the employer’s expectations of core benefits? (See chart 4.15.) There is economic pressure to control and manage expenses. If I cannot make them smaller, at least I do not want to make them bigger. Business circumstances have altered the employer-employee contract. The downsizing trend of the last 10 to 15 years has demanded that employees move away from the traditional contract as relevant for all employees; I certainly can make fewer people party to that contract. So, by and large, core benefits have become a permanent cost dimension, and companies have to question their business value and whether they help achieve parity vis-a-vis



## Do Employers/Employees Still Need Employee Benefits?

competitors or if there is any competitive advantage. Most employers probably characterize core benefits as parity.

Chart 4.15  
**What About the Employer's Expectations of "Core" Benefits?**

- Economic pressure to control and manage expenses
- Business circumstances have altered the "employer/employee contract."
- "Core" benefits have become, by and large, permanent cost dimension.
- Companies must question the business value of these along the continuum from parity to competitive advantage.

### ■ Employees' Valuation of Benefits

Do employees value all these benefits? (See chart 4.16.) Core benefits are fungible. Among large employers, employees look at core benefits as the ante. Nontraditional programs, or programs that go beyond the core, demonstrate responsiveness. The premium is on plan design and flexibility, particularly if we have new employment models, nontraditional arrangements, more part-time workers, and more customized types of employment settings.

Chart 4.16  
**How Employees "Value" Benefits**

- "Core" benefits more or less fungible (the "ante" for large employers).
- Nontraditional programs demonstrate responsiveness.
- Plan design flexibility features in new employment models.

### ■ Employers' Valuation of Benefits

From the employers' point of view, there is acceptance that employers in mainstream organizations are the distributors of choice (chart 4.17). Variability exists in the levels of coverage offered, and the sharing of those costs is more evident. It certainly is in our organization. But there are many fewer sacred cows. Benefit design and funding responsibilities are shifting from the employer to the employee. The employer provides the broad landscape, and the individuals design programs that fit their circumstances. And there is a presumption that if employers receive tax-favored treatment, they have to shoulder the burden that

goes with the regulation and the monitoring that accompany these programs.

Chart 4.17  
**How Employers "Value" Benefits**

- Acceptance by employers as "distributors of choice"
- Variability regarding the levels of coverage offered and employer/employee sharing of the cost of such benefits (fewer sacred cows)
- Shifting of benefit "design" and funding responsibilities from employer to employee
- Shouldering of regulation and monitoring as the condition for tax-favored treatment

### ■ The Changing Context

Employee benefits remain, but the context in which we view them has changed (chart 4.18). In my view, benefit programs are questionable as explicit tools to attract and retain human resources. Heightened plan regulation and monitoring, as well as customization, have, if anything, increased their complexity. With that complexity come design, compliance, and ongoing operational costs, all of which lead to the last point: Employee benefits are being scrutinized to a much greater degree from the perspective of financial analysis that seeks to link the provision of these programs with what is being achieved in the business.

Chart 4.18  
**Employee Benefits Remain; but the "Context" Has Changed Radically**

- Benefit programs are questionable as explicit tools to attract and retain human resources.
- Heightened plan regulation and monitoring as well as the "customization" of benefits have increased complexity.
- With complexity come significant design, compliance, and on-going operational cost.
- The prism of financial cost analysis has refocused on the associated costs of benefits offered and the linkage to achieving business objectives.

### ■ A New Model

Is there a new and improved model from both the employer's and employee's points of view? (See chart 4.19.) There are a number of factors in the mix. From the employee's perspective, what are the criteria that are going to be weighed? Within an array that includes choice, customization, portabil-

ity, individual tax effectiveness, alternative providers, the cost of those alternatives, lifestyle conformity, and relative value, which ones am I willing to give up or compromise to retain those that have the greatest value for me?

On the employer's side, the factors clearly will be tax and social policy, efficiency of programs,

flexibility and outsourcing. Is the program going to be managed within the organization? Am I making an organizational commitment to program maintenance? Can I migrate this program to new owners, to joint ventures, for alliances? We no longer are self-contained, monolithic organizations. We have a full range of new things happening with respect to how organizations function. For example, consider the recent decision of the Sara Lee Corporation to outsource its manufacturing. It is difficult to understand that a company can outsource manufacturing. Whatever we put in place, we have to be able to undo or to pass over, or at least not create an impediment to any of these joint ventures, alliances, or other significant organizational changes.

Finally, where am I in the business cycle? How mature am I as an organization? And do I have staying power? Once I have made this commitment, am I willing to take the economic responsibility?

Chart 4.19  
**The "New and Improved" Model  
 for Employee Benefits?**

Examples of Factors in the Mix

Employee	Employer
<ul style="list-style-type: none"> <li>• Choice, customization</li> <li>• Portability</li> <li>• Tax effectiveness</li> <li>• Alternative providers</li> <li>• Lifestyle conformity</li> </ul>	<ul style="list-style-type: none"> <li>• Tax and social policy</li> <li>• Efficiency of programs</li> <li>• Flexibility</li> <li>• Outsourcing</li> <li>• Migration to new owners/joint ventures/alliances</li> <li>• Business cycles, maturity of enterprise, staying power</li> </ul>
<ul style="list-style-type: none"> <li>• Relative value</li> </ul>	

## *Benefits: Labor Strategy for the Future*

by Ronald Blackwell

### ■ Introduction

As the Director of Corporate Affairs at the AFL-CIO, I would like to offer our perspective of what is going on in the world of benefits and how we view them both from the perspective of labor's responsibility and employer responsibility.

Like wages, benefits are a fairly complex phenomenon in the employee relationship. Benefits are a real cost to the employer, and we are mindful that they are a tough cost to bear in an increasingly competitive world. Costs to the employee are a part of their income, an essential part of their income, at least as important as the wages they earn, and the higher the cost, the lower the benefit. Or the higher the benefit, the lower the cost. Hence, employers and employees have a difference of interest here, which can be a conflict of interest. But benefits, like wages, constitute more than simply income on one side and a cost on the other side. They are an expression of the nature and the quality of the employer/employee relationship and that, increasingly, in America today, is out of kilter.

### ■ Different Views of Success

We want our employers to be successful. If our employers are not successful, then we have no jobs. But employers can be successful in different ways. We want them to be successful in ways that benefit not just themselves, their shareholders, and their chief executive officers, but also the people who work for our employers, the people who live in the communities in which our employers are active, and the families of our employees. We think there is a possibility here to find a way in which this can work, not just for business on the one side and for employees on the other side, but for both. And we believe the country benefits if we find those ways. But to do so, we have to question some serious premises that we share.

### ■ Historical Perspective

The first thing to question is where we are right now. An Employee Benefit Research Institute *Issue Brief*<sup>1</sup> includes a diagram of total compensation and hourly wages from 1953 to 1992 or so. Although these do not resemble numbers we use, it provides an interesting perspective of where we are in history. The post-war period in the United States divides rather neatly into two periods, 1949 to 1973, and the period after. From 1949 to 1973 was a period of relatively rapid economic growth, more than

5 percent a year. Rapid productivity growth and wages and benefits tracked productivity, step for step. It was a period during which real family income basically doubled, the American middle class was built, and every decile of the American population saw their living standards rise. In fact, the lower you were in the American living standards, the faster your income was rising.

The period since 1973 is rather different. Economic growth has slowed. We pat ourselves on the back about how fast the economy is growing, but it is growing on average in that second period about half what it did in the first. The connection between productivity and wages has been shattered. Since 1979, productivity has increased more than 30 percent, and total compensation has declined more than 12 percent. This second period is characterized by a different pattern socially, economically, and in terms of business strategy. This is a period in which only the top 20 percent of American families have seen their incomes rising. The bottom 80 percent either have seen stagnant incomes or falling incomes, despite the fact that

<sup>1</sup> Dallas Salisbury, Ken McDonnell, and Edina Rheem, "The Changing World of Work and Employee Benefits," EBRI Issue Brief no. 172 (Employee Benefit Research Institute, April 1996).

## Do Employers/Employees Still Need Employee Benefits?

they are working more hours, working more jobs, and more members of the family are working. Although they are more productive now than ever and we live in a \$7 trillion a year economy, the family incomes for the majority of American workers are falling.

On the benefit side, we are seeing decreased health care coverage, decreased benefit coverage, the shift from defined benefit to defined contribution plans and falling vacation coverage. And soon, I expect to see an elimination of the weekend, at least if we stay on the course that we are on. This is not only bad for American workers, it is intolerable. And we believe it is bad for American society because it opens up a rift—not just economically but socially, culturally, and increasingly politically—in our society that is unsustainable.

Is this good for business? We have a booming bull market, and corporate profitability is very high. It is almost back to the levels that it saw in the best part of the earlier period. Executive compensation is off the map. While these are better now than they have ever been for some members of our society, they are not better for workers and for their families. But are these trends good for business? I argue that they are not, that this is a very weak environment in which we are acting economically with regard to the performance and the long-term competitiveness of our firms.

I came out of the clothing and textile workers union, which represents a range of employees in industrial companies, including Xerox Corporation, Johnson & Johnson, and others that are dealing with increasing competition in the world market. This also is one of the major factors driving the change from the earlier period to the later period. We learned that working people know things about their work that management not only does not know but cannot find out except from those workers. But our negative employment relationships are blocking worker commitment, creativity, and knowledge, which are invaluable resources for the competitiveness of companies in a relatively high-wage country like the United States. The high road to competitive success must focus on product quality and customer service and must meet the cost competition through increased productivity. To do this requires employee commitment, the harnessing of employee imagination, and

the mining of workers' knowledge.

There are two other ideas to consider. The discussion about our economic policy is monopolized by a tug of war between omniscient markets on one side and incompetent government on the other side. Where business fits into this, I do not know, except that business does what it has to do, what the market makes it do. The happy circumstance is one in which it turns out that it is the best for everyone. But in this case, it does not turn out the best for everyone. It is not good for business, and business has a choice to make about how it is going to meet international competition, while the government has a role in helping companies meet that competition in ways that benefit not just the employers but the people who work for them.

### ■ Job Insecurity and Knowledge Hoarding

The major barrier in the current employment relationship that blocks the ability to tap into or engage the commitment of employees—to be able to harness their creativity and to mine their knowledge—is that they have no security that their knowledge and their contributions to the company will not be used against them. I call it the “Ralph Kramden” problem. If you put the suggestion in the suggestion box at the bus company, you will be fired the next day when they take up your suggestion. Workers know this and it causes them to hold on to the knowledge they have instead of contributing it to the company. Workers have to be shown something in the way of employment security to contribute their knowledge.

Their second major concern is benefits. Benefits are something they rely on to provide an economic basis for their family's lives. Beyond that, they are a sign of the quality and the commitment of the employer to that employee. If the employer does not care anything about your retirement or says, “You just simply have to take care of that yourself,” a different relationship is created from one that results if the employer has a program that helps employees take care of their families.

And then there are wages. While wages are a very important concern, they are not the leading concern of workers. Benefits, in terms of income,

are the most important factor for workers. And for employers, benefits are the most important way in which they can show, if they cannot guarantee employment security, that they do care about whether their workers are going to be able to put together a life for themselves and their families.

If we could find ways in which we could recognize the realities of the new global era we live in, then the responsibility of labor and workers is to let go of the old world. The world has changed. We need new ways to engage employers, new ways to help business become successful, new ways to deliver income to our members. But we're not going to give up our old ways unless we know there is something else for us.

We need to see the commitment on the employer's side first and foremost, but we also need to see the commitment from the government because too many of our companies talk about pursuing the high road but they travel the low road. Or they travel the high road a while and then they drive off into the ditch. We have to work with companies and management that are prepared to travel the high road. As we say at the AFL-CIO, "We want to pave the high road," but we also have to be prepared to block the low road. We also need the government to help protect companies that want to travel the high road from competitors who are prepared to use any means at all possible to undercut, take their markets, and beat their business.

There are real opportunities for cooperation on the benefits issues as well as on the business strategy issues. If we are able to find more common ground, we can build not only a benefit picture that makes sense going forward but also businesses that make sense going forward.

## ■ Pension Assets

We also want to organize workers' assets so that they work for workers. Pension assets alone represent more than \$6 trillion, or more than 25 percent of all publicly traded companies. We likely own more of any individual company collectively than the person who runs a company. But we do not act like owners. Pension obligations stretch over decades. So someone who is managing that money, strictly from a financial point of view, ought to be able to survey over decades to be able to

determine the largest rates for attractive investments. But that is not the way our money is managed. Our money is managed to earn the highest rate of return, quarter to quarter, just like every other sum of money. And often that involves tearing up the companies of which we are a part, savaging their research and development budgets and workers' benefits so that they can show a higher rate of return.

That is not good for our members, it is not good for the long-term viability of that business, and it is not good for the retirement security of our members. And it is fiducially irresponsible because unless capital markets are perfect, there is no reason to believe that three-decades-out performance is reflected in instantaneous spot markets. Particularly in multi-employer situations, our union trustees are trying to educate on the philosophy of long-term investment that gets our members to retirement and that provides patient capital to employers to help build their businesses and build the future of their businesses in terms of research and development, training, and the things that are now lacking in American business.

On the capital side, that is the objective. That could be done either through shareholder activity, on which we are very focused, where the target is not staying out of companies, it is getting in companies because we want a voice as owners of these companies about how they are competing and what is responsible and what is not. Are the executives getting paid for what they do for the business? Or are they simply gouging because they have a cozy board? That question is very central to our concerns.

Apart from shareholder activities, this kind of money can serve as direct investment. It can help produce high-road businesses and sustainable communities, and we will have programs for trying to use it in that kind of way. But we are looking not just to the capital markets but also to the product markets. In health care in particular, we represent millions of lives, and corporations are reorganizing the health care industry with a focus entirely on the price of health care. That is important, but where is the quality in health care? And who is using market power to argue for higher-quality services, which means treating people who deliver health care in a decent way?

## **Do Employers/Employees Still Need Employee Benefits?**

### **■ Conclusion**

We definitely are going to organize our assets, whether they are in the product markets that we are active in, or in the capital markets, to try to provide our employers with a high-road competitive opportunity that will benefit our members in the long term but also serve the fiduciaries who are responsible for those assets.

## *The Key to Successful Downsizing: Partnership*

by James King

### ■ Introduction

The U.S. government is the largest employer in the United States. At the end of 1992, it had about 2.21 million people on its payroll. Now it has about 1.88 million people on its payroll. The record at the Office of Personnel Management (OPM) and in government has to be seen in the overall context of the goals of the current administration.

Prior to this administration, and for a number of years going back to 1968, in what was certainly a bipartisan effort, presidents, governors, and, in many cases, mayors and county supervisors denounced government in general and those running for federal office and the federal government specifically, vowing to cut it to the bone. But somehow, the government just kept getting bigger. President Clinton and Vice President Gore came to office committed to a federal work force that would be both smaller and more responsive to the American people, whom they viewed as its customers.

### ■ Reinventing Government

In 1993, the vice president headed the National Performance Review (NPR). The goal of the reinvention of government, and the central point of the reinvention, was to reduce the work force by some 273,000 people, or about 13 percent, over a five-year period. That goal has been exceeded. As of two months ago, the work force had 320,000 fewer employees, a reduction of more than 14 percent.

In my four and one-half years as director of OPM, the government's leader in human resources policy, I felt we had an obligation to lead the way in reinvention. One of our basic assumptions was that, as the work force grew smaller, more would be demanded of every employee, and our ability to recruit and retain the best possible work force would be central to our goal of increased efficiency

and public trust. During my time at OPM, we downsized the agency by about 47 percent, from 6,861 employees to 3,620 employees. In the process, we reinvented the agency and quite possibly saved it from those who think that our personnel officers and management in this area are redundant in today's marketplace.

We were acutely aware that we were not dealing with numbers but with people's lives. This agency not only has responsibility for policy work, we are responsible for the health care of 9 million people. It is the largest single health care program in the United States. We manage life insurance, disability, and the distribution of about \$36 billion a year in our annuitant payments for their retirement. Therefore, about half the agency does that kind of administrative work, and the other half does the policy and the personnel type of work.

We all strongly believed that the administration had an obligation to carry out this massive downsizing with enormous respect and regard for the career of every worker involved. Therefore, in our agency, we recommended governmentwide downsizing by attrition as much as possible. OPM assumed leadership in working to pass buy-out legislation by the Congress that provided incentives for many non-Defense Department employees to leave government voluntarily. The Department of Defense had already implemented a buy-out program. We also carried out a partnership with our employees, an aggressive career transition program in our own agency, that had a success rate of more than 96 percent.

### ■ Work Place Partnerships

The key to successful downsizing can be summed up in one word: partnership. When President Clinton took office, worker-management relations had reached an all-time low, by all the surveys we

## Do Employers/Employees Still Need Employee Benefits?

did. The president and vice president knew they could not reform government without a change of attitudes on both sides. To that end, the President created the National Partnership Council. Its members included senior government officials, leaders of the employee unions, and heads of management organizations. As the director of OPM, I chaired the council.

Our primary goal was to encourage the creation of hundreds of work place partnerships all across government. Today, there are literally thousands of work place partnerships in operation. About 70 percent of our bargaining unit employees belong to partnerships. In resolving differences, these partnerships reduce litigation, save millions of dollars, and are deeply involved in downsizing decisions. As you might expect, this was not a happy task, especially in an area where jobs had been structured as an entitlement after the first year of service and legal protections to those jobs were in place.

### ■ Privatizing Investigations

One of OPM's greatest challenges was the privatization of more than 700 members of our investigations unit. OPM did about 40 percent of all the background investigation work for the federal government, including the Department of Energy and the nuclear programs that are directly tied to that. The unit was supposed to be self-supporting by selling its services on a reimbursable basis to other agencies. Soon after I arrived at OPM, I found that we were millions of dollars in debt, we hadn't broken even in more than 10 years, and the place was abysmally managed because no one seemed to have worked against a bottom line. On one hand, you did not have to meet a federal budget, and on the other, you were a reimbursable account. So many people viewed it as a "slush fund," and there was no bottom line from which to operate.

After an initial round of reductions in force—that's termination in the government acronym or RIF—we had to move very quickly to slow our dollar losses, and then the decision was made to privatize the unit. That could have meant more RIFs, and that was what virtually everyone assumed. These were skilled investigators, most of whom, if separated, could have found employment

with private investigation companies or even other governmental organizations. I was not satisfied with that approach, and I wanted to see if these talented people could be kept together, if possible, and be their own bosses, rather than someone else's employees. I was aware that in the private sector, employee stock ownership plans, or ESOPs, have been used to help employees take control of their own companies. I asked if that could be done with our employees.

In no uncertain terms, I was told that it had never been done in the federal government in well over 200 years, and that there were many political and legal obstacles to it being done. On top of that, attacks would be generated at every level by those who had vested interests in maintaining the status quo. Many of the employees involved strongly opposed the plan. They wanted to stay where they were, and they were absolutely convinced that if they could kill the plan for an ESOP, their jobs would be saved.

To shorten a very long story, a new company, the U.S. Investigations Services, Inc., opened its doors in July 1996. Most of the employees are performing the same work as they did before, in the same locations, and starting with at least the same pay and comparable benefits. But they are no longer federal employees. In fact, thanks to profit-sharing, they are doing better than our federal employees. They gave themselves an 8 percent salary increase last year, as compared to the 2.8 percent received in the federal government, and an 11 percent stock dividend. We believe this can be a model for other federal privatizations in the future. Our best estimate is that privatization is saving the taxpayers about \$19 million a year, and will continue down that path for the foreseeable future. It will level off at some point, obviously, but the savings will be equal to that, if not better, in constant dollars from now on.

### ■ Expanding Diversity

Another of the president's goals was to expand diversity in government. Hispanics are significantly underrepresented in our government, and OPM took many steps to recruit Hispanics more aggressively. For example, we visited predominantly Hispanic campuses, and on some campuses we installed touch-screen computers that literally



bring up-to-date job information to the students' fingertips. On any given day, if you go to the World Wide Web, there are about 4,000 jobs posted by OPM. It is the first time in the history of our government that we have been able to centralize a job-hiring pool. I met with and spoke with Hispanic leadership groups and sought their cooperation in attracting more young Hispanics to government. The government continues to hire on a basis of merit, but at the same time, we are determined to reach out to the broadest, deepest possible pool of potential applicants.

Our government also has provided leadership in creating an outstanding variety of family-friendly programs that are helping workers balance the demands of work and family. The first bill that the President signed when he was elected in 1992 was the Family Medical Leave Act. And it proved to be one of the most popular of his actions with American working people. There also has been a great deal done to expand alternative work schedules, part-time work, and telecommuting. At the same time, we are going to have to keep a close eye on the impact on these programs to measure how they affect productivity.

## ■ Measuring Total Compensation

One of my concerns as director, which continues to be a top concern of my successor, Janice LaChance, is what we call total compensation. While this word is very familiar in corporate circles, it is a new phrase in the federal government. One reason is the lack of a disaggregated budget, which means that managers do not know the real costs of employees or the implication of either benefits or any other aspect within that term.

We turned out the first report that dealt with total compensation. What we did is to provide employees with their hourly rate both with and without benefits. For example, for individuals earning \$38,000 a year, their hourly rate came out to about \$16.60 an hour, and their hourly salary rate, including benefits, came to \$21.82. This move toward total compensation will help not only the people hiring and managing, it will help with the oversight that comes from the Congress, so they can make some kind of sense out of what we do as America's largest employer.

Total compensation also deals directly with

employees. When the new majority took control of the Congress in early 1995, some of its leaders quickly declared that federal pay and benefits were ripe for cutting. As it turned out, the losses to federal employees and retirees were minimal because these benefits, and most of these salaries, made sense. But the fact remains that federal pay and benefits should not be a political football, which is terrible for employee morale. I do not think there is an effective corporation in America that would literally negotiate wages or health care benefits every single week and create a level of insecurity that is totally unnecessary. There are enough insecurities in life today.

OPM is opening its new, total compensation center, and that should lead to our overall compensation reform effort. We will develop proposals for the performance-oriented, total compensation system envisioned in our strategic plan. We want this center to gather facts in a more coherent fashion than we presently use on how federal pay and benefits compare with those in the private sector. If the facts confirm what I suspect, we will need to do more to convince the American people, through the Congress and federal employees, that they are, in fact, getting good value for each dollar spent on the federal work force. And we also will look for ways that we may need to improve our pay and/or benefits in order to remain competitive with the private sector.

The federal government does offer some excellent benefits. The best example is our federal employees health benefits program (FEHBP). This is among the finest of its kind in the world. Our administrative overhead manages just under 4 million contracts. Its administrative costs are rather low, as fewer than 150 people are managing the entire program. And its customer service rating is extraordinarily high. In recent years, we have used technology to provide *better service* with *less* cost and with *fewer* people. That is the intent of government downsizing. While we are all familiar with automatic phone systems, we find that they serve our federal employees very well. Information that once required an exchange of letters or a long wait on the telephone now can be given and received in seconds. That also becomes a fringe benefit to a number of people who make changes on a regular basis because of our program open season. In our current health care open season, for

## **Do Employers/Employees Still Need Employee Benefits?**

example, OPM received 123,000 calls through its automatic phone system, called Open Season Express. Of these, 85 percent received service by an interactive voice response. The remaining 17,000, about 15 percent, of the customers were helped by a customer service representative. The average time the customer waited for a customer service representative was 17 seconds.

### **■ Conclusion**

In these and many other ways, our government is performing better than it ever has with fewer people. I am proud of the progress made, and I think you would agree that we certainly deserve the best civil service in the world. To have it, we must be competitive with the finest private employers. So when we ask how key employees can be retained, good pay and benefits are obvious, but there also is pride in serving one's country. The psychological aspects in pay are still there, and part of that whole thing is a sense of caring.

## *The Gradual Erosion of Employment-Based Benefits*

by Robert D. Reischauer

### ■ Introduction

The design and role of employer-sponsored benefits have changed gradually over the past decade. The recent trends are likely to continue because the forces driving them will, if anything, intensify in the future. The nature of these forces suggests that there may be significant limitations to what public policy can do to alter the trends, which are troubling from both the workers' and society's perspectives.

The slow but steady reduction that has occurred over the past decade in the prevalence and adequacy of employer-provided benefits is likely to continue in the future. There won't be a rapid unraveling of the current benefit system, but there will be a gradual erosion. The best way to understand why this will occur is to explore the circumstances under which it makes sense—or is advantageous from both the employees' and employers' perspectives—to obtain benefits through the work place and to examine how these circumstances are likely to change in the future.

At the outset, it is worth noting that the current system of getting certain services through one's employer is rather unusual. Most goods and services are obtained through individual, private market transactions or by having the government provide them collectively. In the rest of the world, work place provision of services has flourished only in countries where markets and government have failed. This was the case in the former Soviet Union, where large employers often provided educational services, housing, child care, special stores, sports facilities, and health clinics for their employees. Similarly, firms in some developing economies provide many services because government is weak and corrupt and private markets for

the services have not yet emerged. But the United States has the world's most highly developed private market system and a public sector that certainly ranks among the best. So why do Americans obtain important benefit through their work places?

### ■ Seven Conditions That Support the System of Employment-Based Benefits

There are at least seven conditions that play important roles in determining whether benefits provided through the work place make economic and social sense and are acceptable to both workers and employers. First, such services make sense if the employer's work force is relatively homogeneous—in other words, if all workers find themselves needing the same types of services in roughly the same amounts and the costs of providing the services are roughly equal across the different workers at the firm. Over time, this condition has become less and less reflective of the situation facing most employers. More women have entered the labor force, more employees work part time, and the workers' family situations have become more heterogeneous. The average employer's work force today has relatively more single, divorced, and childless workers and fewer male heads of families with dependent children than in the past. The ethnic diversity of the average employer's work force has also grown.

The period from the end of World War II through the mid-1980s was an era of ignorance about benefits. Differences among workers didn't matter much because the inherent inequities of the benefit systems were not widely appreciated

## Do Employers/Employees Still Need Employee Benefits?

outside the offices of benefit managers, and most workers viewed benefits as pure additions to their wages. Over the past decade, however, workers have become more aware of both the costs of benefits and their unequal distribution across employees. They are also beginning to understand that benefits are an important component of total compensation and that it is total compensation, not just cash wages, that employers care most about. Every dollar spent on employee benefits is one less dollar available for cash compensation. The slow growth of wages in recent decades has heightened workers' awareness of this tradeoff.

In an effort to impress upon workers the significant amounts they are devoting to employee benefits, many employers have begun to provide each of their employees with an annual statement of the amount they spend on the employee's benefits. This has tended to heighten awareness of the inequities and undermine support for benefits among some workers. For example, when my research assistant and I compared our statements, she was not overjoyed to find out that our employer provided a \$3,700 annual subsidy for my health insurance while providing her a subsidy of only \$1,900. Of course, even these figures didn't reflect the true disparity. They were based on the average premium costs of the different health plans we joined and on our different family situations. They didn't reflect the full effect that our different ages had on the premiums paid by our employer. In short, support for employment-based benefits among workers in firms with heterogeneous work forces is likely to erode as the costs of these benefits become more transparent to workers.

Second, employment-based services make sense when workers expect to spend a long time with a single employer or expect to move among employers that offer similar benefit packages. This is important because the value of some employee benefits varies greatly with age. Health, disability, and life insurance are the most obvious examples. Viewed from the perspective of a single year, employer-subsidized health insurance is a highly inequitable salary supplement, one that has very little value to the average single 27-year-old male but a tremendous value to a 55-year-old male with dependent children and high cholesterol. If the 27-year-old had some assurance that, if he wanted, he could be employed by the same firm or a firm with

similar benefits when he is age 55, the inequity experienced when he was young wouldn't be that important because he would realize that there would be some rough equity over his working life.

There is a good deal of controversy among analysts about whether today's workers are experiencing more, less, or the same amount of tenure with their employers. One does not need a definitive answer to this question to conclude that the environment is probably getting a bit less conducive to employment-based benefits each year. Most workers will have a number of different employers over their working careers, several after they are 35 years old. And the benefit packages offered by different employers are probably becoming more disparate. In addition, the types of the employer-employee relationships that an employee might face are becoming more heterogeneous. There has been a proliferation of part-time, flex-time, contingent, and consultancy arrangements, which affect the worker's eligibility for benefits.

Third, employment-based employee benefits make sense and are desirable when they are tax subsidized; in other words, when the service can be obtained by workers at a cut-rate price if they are purchased at the work place through explicit or implicit reductions in cash compensation. Even though the value of these benefits to the average worker may be less than the costs faced by their employers, the tax savings make the benefit worthwhile from the employees' perspective.

But this advantage is becoming less and less important for a variety of reasons. First, marginal tax rates for most workers are quite low—15 percent—which reduces the tax savings. Second, public policy changes have created alternative tax-advantaged ways of buying these same services outside of an employment situation. The most obvious example of this is the tax-free retirement savings opportunities afforded most workers through individual retirement accounts (IRAs). Policymakers expanded these opportunities in the Taxpayer Relief Act of 1997 with the Roth IRA. Similar developments are under way in the health insurance area, where recent legislation has expanded the fraction of health insurance premiums that the self-employed can deduct from their taxable income. If the nation were ever to move to a consumption tax, the tax advantage afforded to

employment-based benefits would be eliminated.

In summary, tax policy changes adopted to achieve other worthwhile objectives are slowly but steadily undermining one important reason why employment-based benefits have been so attractive. With these changes, the attractiveness of employment-based benefits has been reduced for those in the bottom half of the income distribution.

Fourth, employment-based employee benefits make sense and are desirable in situations in which risk needs to be shared and in circumstances in which moral hazard problems would arise if the services were purchased by individuals. These are major reasons why work place-based health, disability, and life insurance have been so popular. In each of these situations risk has to be shared. The work place constitutes a sensible grouping across which to share the risk because it is a closed group of basically healthy people who have been brought together for purposes other than their need for insurance. When such insurance is sold and purchased on an individual basis, those who are very healthy or young will refrain from buying insurance and, instead, self-insure. Those with chronic conditions, the sick, those anticipating the need for expensive medical care, and the old will seek coverage. In short, there will be adverse risk selection that will push up insurance costs.

Unfortunately, the moral hazard problems of the individual insurance market are beginning to infect the environment in which employment-based benefits operate. With cafeteria plans and similar arrangements, some of the collective risk sharing of work-place benefits has begun to disappear. Those who are very healthy might decide to opt out of their employer's health insurance plan, choosing instead added retirement contributions or some other employee benefit from which they might expect to gain more. In addition, because many workers are part of a family unit with several workers, they may be able to obtain health insurance coverage through a spouse's employer, thereby escaping from sharing risk when their employer's group has high costs. As employers shift more of the total premium costs onto workers, these responses will become more prevalent.

Fifth, employment-based benefits make sense when collective purchasing of the service is efficient and society has decided that the service shouldn't be purchased collectively through the

government. Clearly, group purchasing of health, life, and disability insurance is efficient because it reduces marketing costs. Employers are also an efficient group to use to obtain these services because they can minimize the carrier's billing costs by ensuring timely and assured premium payments. Similarly, employers are an efficient entity through which pension benefits can be obtained because they can offer investment diversification that, until recently, was not available to individuals and because administrative and record-keeping costs can be kept down.

In today's world—with computers, the proliferation of mutual funds, the creation of the administrative structures for IRAs and 401(k) plans, automatic electronic bank transfers for recurring bills such as monthly premium payments, and the emergence of health insurance purchasing cooperatives (HIPCs)—the advantages of the work place as the efficient group purchaser are beginning to diminish.

Sixth, employment-based benefits make sense when they do not impose high administrative and human resource costs on the employers. Over the years, these costs have risen as government regulations have increasingly constrained the flexibility of employers and expanded reporting requirements. The government regulations have been aimed at ensuring more equity in the distribution of benefits and more assurance that the employee will receive the benefits he or she has been promised. There is every reason to expect that the costs of regulation will continue to trend up.

A seventh condition that makes it advantageous for an employer to offer benefits is when these forms of compensation can be used to attract and retain good workers. While benefits are still important in this respect, their power is less than it once was. The Employee Retirement Income Security Act's (ERISA's) vesting rules for pension benefits and the spread of defined-contribution pension plans mean that workers now are less tied to their employers by pension plans. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) has given workers a bit more flexibility with respect to health insurance. Finally, with the spread of two-worker families, many can obtain their health benefits through a spouse.

This list could go on, but the point has been made that many of the factors that have made

## Do Employers/Employees Still Need Employee Benefits?

employment-based benefits so popular and sensible in the past are beginning to weaken, if only very gradually. Over the course of the next few decades, the generosity of the benefits that employers offer is likely to decline, albeit very slowly. This decline could manifest itself through an expansion of individualized benefits that involve less risk sharing and redistribution. Little of the change will probably take place through explicit modifications in the benefit policies of existing firms. Rather, most of the change will come about as the benefits provided by new firms and those undergoing mergers are less generous than those of existing firms, firms that go bankrupt, and firms that shrink in size.

### ■ The Public Policy Response

These trends will put pressure on policymakers to respond because the benefits now provided through employers are vital to society. Public policy can respond in one of three ways, each of which has its own problems. First, policy can try to fill the cracks as they emerge, that is, develop mechanisms that provide these services to those who can no longer access them through their employers. We have already seen this response in the health insurance area, where programs have been developed to provide health insurance to low-income children who lack coverage and in the pension area with tax-favored IRAs. President Clinton's proposal to allow early retirees and older workers without employment-based health insurance to buy into Medicare is another example.

The problem with this approach, of course, is that it may actually hasten the erosion of employment-based benefits; government programs may act to crowd out employment-based benefits. New firms will feel less need to provide these services, and workers will be less concerned about joining a firm that doesn't offer them because they will have other affordable ways to access these benefits.

A second response is to have public policy attempt to shore up the current system of employment-based benefits. This can be pursued through rhetorical encouragement or tangible carrots and sticks. Carrots could take the form of increased incentives for businesses to provide such benefits. They would most likely take the form of

tax incentives and regulatory relief. Budget constraints make the former difficult, while worker opposition could make the latter approach problematic. Sticks might encompass mandates. The nation went through a recent test of the political viability of such mandates with President Clinton's 1994 health reform initiative. Its fate suggests that this approach doesn't have much political appeal. The carrot approach probably would turn out to be rather inefficient and inequitable. Most of the benefits of the incentives would be scarfed up by big firms that currently provide benefits and are not about to scale back their efforts. Government could focus its initiatives on small firms that generally don't offer benefits by creating conditions that made it easier and less expensive for smaller employers to offer benefits. HIPCs are one example of this; the President's 1999 budget proposals relating to small employer pension benefits are another. But there are limits to how much could be accomplished through such mechanisms because of the seven forces that were discussed previously.

The third possible policy response to the erosion of employment-based benefits would be to have government collectivize the services that are currently being provided, in a patchy way, through employers. Any observer of the American political scene realizes that there is virtually no chance that this response will occur. Many probably believe that such a policy outcome could only arise from a collectivist movement. But it could equally well spring from extreme forms of privatization. For example, a privatized Social Security system which allowed for voluntary supplemental individual deposits could be a fertile incubator. With such a structure, employment-based retirement programs could gradually disappear as employers scrapped their pension plans in favor of salary supplements, which their workers could, if they wanted, deposit in their individual accounts. A similar policy evolution in the health care area could be imagined if the dominant form of coverage became Medical Saving Accounts backed up by catastrophic insurance.

### ■ Conclusion

Over the course of the next few decades, economic and social forces will continue to weaken the rationales for employment-based benefits. As a

result, there is likely to be a very slow decline in the fraction of the work force that enjoys these benefits as well as in the adequacy of those benefits that are provided. Acting out of good intentions,

government will try to fill in the cracks in the system as they develop. However, these policies are likely to make the underlying problem marginally worse.

## *Employers Need to Make the Case for Employee Benefits*

by James A. Klein

### ■ Introduction

To be a little bit provocative, I would like to address myself to questioning somewhat the premise of the question I was given to comment upon: “Do Employers and Employees Still Need Employee Benefits?”

Perhaps the answer should be “maybe,” or perhaps even “no.” I want to underscore that, my own personal answer is a very vigorous “yes.” But because of some of the trends that I see developing among public policymakers and others, I think that we, as a benefits community, have a much tougher responsibility to, first of all, step back and question whether the answer is necessarily a “yes,” and then to make the most articulate case we can as to why it should be.

In doing so, let me start by citing two very unscientific observations or stories. In Washington it is said that one story is an anecdote, two stories are data, and three stories are a survey. So let me share two stories with you.

The first is, back in 1985, I was working at the U.S. Chamber of Commerce as the lobbyist on employee benefit issues. This was right at the very beginning of the debate over what became the Tax Reform Act of 1986. The president of the U.S. Chamber of Commerce at the time sent out a letter to all of the CEOs of the Fortune 500 companies that were members of the Chamber, as he did on many different topics over the years. He asked them what they, as CEOs of their organizations, thought about the then-emerging proposals to limit in some fashion the tax exclusion to employees for employer-provided health care benefits.

The responses came back, almost unanimously, that any limit on employees’ tax exclusion for employer-provided health care would be a disaster. The CEOs said that their employees relied

on these benefits fundamentally and that they were an important part of what their companies were doing in terms of providing guarantees and protections for their work force and creating an environment that they wanted to promote.

I only tell this story now because I think, for a variety of reasons, that different people might interpret the issue differently, and I can’t imagine any of us expecting the same degree of near unanimous response were CEOs of Fortune 500 companies to be asked that same question today. And it is a question that they might be asked in the not-too-distant future if we are about to embark upon a rigorous national debate on comprehensive reform of the tax system.

The second story is one that goes a bit more directly to the heart of interactions that we have had with members of Congress and their representatives on these issues. And it includes comments that I’ve heard directly from two congressional leaders on health care over the last year-and-a-half or so. One of the leaders is Congressman Dennis Hastert (R-IL) and the other is Sen. Robert Bennett (R-UT). These lawmakers have chaired House and Senate task forces on health care. They have questioned whether the provision of health care benefits should be decoupled from the employment relationship.

I want to emphasize that these are two members of Congress who are very pro-business oriented; we go to them on a regular basis for support when issues arise, and they provide that support. In every respect, they want to ensure that the sponsorship of benefit plans is not encumbered in any way by mandate or overregulation. Nonetheless, I think, what I read from their very sincere comments is that, notwithstanding their role as strong supporters of the current system, a part of their thinking questions the *value added* by



## Do Employers/Employees Still Need Employee Benefits?

employers sponsoring benefits. If our champions in Congress can call into question the very notion of whether employers ought to be involved in this whole benefits business, then all of us, but certainly a group like mine whose job it is to be an advocate for benefits, have to point out the value added by employer involvement.

### ■ The Current System

Returning to the question of whether “yes” is the right answer to the question posed, we also have to acknowledge some of the current system’s weaknesses. We have to acknowledge that, despite the enormous tax expenditures associated with employment-based health care and retirement benefits, there still are millions of Americans who are uncovered. This helps to explain why there is a certain attractiveness in a philosophy that says, “Maybe this really ought to be turned over to individuals. Maybe we should simply have some kind of a super individual retirement account to allow folks to take care of their retirement needs and a super medical savings account to allow folks to address their health security needs.”

I think that the challenge for the benefits community is to point out the false dichotomy of the statement that these kinds of health and retirement protections could be as ably presented through a strictly “individualized” approach as through an “employer-group sponsored” approach.

We need to take the argument beyond merely saying, “Oh, but look at all that employers do in terms of sponsoring the benefit, paying the administrative fees, and taking on certain fiduciary responsibilities in the retirement context.” Or, on the health care side, we need to go beyond saying, “Oh, but employers can purchase health benefits so much more effectively on behalf of a group than individuals would be able to do on their own.” All of these points are true. But, alone, they are not sufficient to make our case convincingly.

Instead, we need to educate policymakers and other thinkers who are leading this “individual” versus “employer” dialogue to the notion that one of the greatest values of the employer-sponsored system is the extent to which it helps individuals to be more prudent purchasers and consumers of benefits. The real value added when employers sponsor retirement benefits for their

employees is not just all the expense that you incur, and the efforts you undertake on behalf of your employees, it’s what you do in terms of getting people to think about being good savers and the retirement savings education efforts that you undertake on behalf of those employees.

On the health care side, it’s not just that you’re able to purchase benefits so much more effectively for your employees than they could on their own, which is true. It’s that by selecting some choices for them, you’re helping them be prudent consumers. In short, employer sponsorship does not supplant the individual’s role in his or her health care or retirement decision—it encourages it.

I don’t know if you agree or not, but if it is something with which you agree, I can tell you it is completely lost on most of the policymakers in Congress. Congressman Earl Pomeroy is the exception, not the rule.

### ■ Conclusion

To conclude, and also so as not to leave a completely doom and gloom message, on the health care side, I don’t see much reason for optimism, but I do see some reasons for optimism on the retirement policy side.

In the health care arena, if you look at the attacks to which the Employee Retirement Income Security Act of 1974 (ERISA) is being subjected, you will note that all of the various mandated benefit proposals, and other actions on the part of the Congress to essentially step into the shoes of company employee benefit managers who design benefit plans, are requirements that are only applicable to those who voluntarily engage in the system. Those employers who choose to be outside that system, of course, don’t bear any burden. The addition of mandates only makes the sponsorship of health plans further out of reach for those who want to sponsor benefits but cannot afford to do so.

At the very same time that legislation is emerging from Congress that makes the sponsorship of health plans more difficult, ironically, Congress, with respect to its sponsorship of public programs such as Medicare, is finally beginning to emulate private employers in terms of adding some elements of managed care to the public programs themselves.

On the retirement side, while there certainly is legislative movement toward increasing fiduciary employers' liabilities, and thereby making it somewhat less attractive for employers to sponsor plans, there is also an appreciation of the need for greater retirement savings. This manifests itself in the form of bipartisan legislation to simplify the sponsorship of retirement plans and in policies that seek to encourage employers to provide retirement investment education.

My last comment is that, in the final analysis, I think it's important to be engaged in these issues. It is important not just because of the need for policymakers to be better informed about the value added by what employers are doing. It is also that, ultimately, employers will pay for benefits one way or the other. I think perhaps Congressman Pomeroy was alluding somewhat to that point.<sup>1</sup>

---

<sup>1</sup> See Congressman Earl Pomeroy, "A Congressional View: The Case for Employment-Based Benefits," in this volume.

Benefits will be provided either through a public program or through some kind of requirements to provide the money to the individuals and then create the vehicles to allow them to run those plans essentially on their own.

And it comes down to, then, a question of trust or confidence on our part, as an employer community. The issue is, if you're going to pay the price one way or the other, through taxes to support a public plan, through greater amounts of cash that will be paid to individuals, allowing them to operate on their own, or through the current basic structure of the employment-based benefits system, which way will accord the greatest degree of control for these costs and for the way these plans are managed?

I believe that the greatest degree of control will be experienced through employment-based systems. And accordingly, we will have gotten to an emphatic "yes": We need employee benefits.

## *Pension Issues as Viewed by the Pension Benefit Guaranty Corporation*

by David M. Strauss

### ■ Introduction

I welcome this opportunity to discuss the government's role regarding employee benefits, particularly retirement benefits. I can assure you that a strong and secure pension system is getting close attention.

The challenge we face in helping American workers achieve financial security in retirement is the subject of many governmental meetings. Included is the National Economic Council process at the White House, where three of my co-workers from the Pension Benefit Guaranty Corporation (PBGC) are involved in a group of about 30 who are meeting on pension initiatives. Almost every day, there are meetings with administration officials and officials on Capitol Hill, and there are interdepartmental meetings. So, certainly retirement security, or retirement benefits, are on everyone's short list of issues regardless of where they are in the government.

### ■ Meeting the Challenges

In terms of the role of PBGC and how it relates to this process, we have our own unique responsibilities and certainly are a player in terms of some of the bigger issues, but we also are taking these specific steps to meet these challenges. First, we are trying to be more responsible to the needs of employers who actually offer the defined benefit (DB) plans that we insure. Second, we are making efforts to restore confidence in the federal pension insurance system by keeping PBGC solvent. Third, we are taking very seriously our mandate under the Employee Retirement Income Security Act (ERISA) to encourage the use of DB pension plans as the primary provider of retirement income.

With respect to the first point, we are trying to develop new ways to work cooperatively

with employers who actually provide the plans that we insure. PBGC has done a tremendous job in terms of relating to participants, workers, and retirees who receive benefits from the plans that we have trusted. We have corporate rules dealing with customer service for participants. For example, calls are responded to within 24 hours, letters have to be answered within five days. We have tried to take the principles of a customer-driven organization and do a better job of working with our plan sponsors to find out what they want so we can do a better job of focusing on their concerns as one of our ways of helping them provide retirement benefits. As a result, we are developing better mechanisms for two-way communication.

### ■ The Virtual Town Hall

In my first week at PBGC, I attempted to visit every employee—we have about 10 floors in a building in Washington, DC—in his or her own office. It took me the better part of four days, and I am sure that some were probably betting that I would never get through it. But at the end of the first week, I sent an e-mail to all of our employees in an attempt to establish a virtual town hall with them. I was surprised that I got about 100 responses. I thought the concept worked pretty well, and started talking to some of the organizations that represent our large premium payers and setting up virtual town halls with them and with some of the other important pension professionals who use our services at PBGC.

This virtual town hall works very well as a way of establishing two-way communication, and there are probably thousands of people who now have my e-mail address. From my meetings with big premium payers, different societies of actuaries, and participant meetings that we conduct when we

## Do Employers/Employee Still Need Employee Benefits?

trustee new plans, I have received a lot of useful input. Some concerns have been raised to me directly about regulations that people find irritating, and we have made a significant number of changes based on some of the direct feedback I received. Creating an atmosphere where we have effective two-way communication with our involuntary customers, those who are forced to pay our premiums and who have to deal with our various regulatory schemes, has been extremely helpful in creating a better partnership to tackle some of the bigger challenges.

To the extent that we are listening more effectively, we have been able to make a number of changes while still carrying out our mandate to protect workers' pensions and the pension insurance program. For example, one of the first decisions I made was to retire our Top 50 underfunded pensions list. This was a major irritant for our biggest premium payers because we were measuring pension underfunding, rather than the funded ratio of these pension plans. We were singling out companies that were meeting or exceeding all of the legal requirements. When we looked at this more carefully, we were singling out companies that did not pose any risk either to the participants in those plans or to PBGC. And so we were able to make a major change in that respect.

### ■ Minimizing Red Tape

We also made a number of changes with respect to easing administrative and regulatory requirements. For example, in a meeting with the Chamber of Commerce Qualified Plan Subcommittee, we discovered that our premium audit program wasn't really working. We had designed it to be a compliance program, but those on the receiving end viewed it as something with a punitive intent. As a result of these discussions, we developed much less obtrusive ways of dealing with premium audits. In some cases, it was costing more to comply with the premium audit program than the actual premium. This is one example of finding a win/win way to ensure that premium obligations are going to be met but doing it in a way that does not create nearly as many problems for the premium payers.

Another program under development is a voluntary self-review program as an option for premium compliance review. Plan sponsors that opt

for this program will be able to self-identify any underpayments, correct them, and thereby avoid penalty charges. We have changes with respect to different reporting requirements, and we have ongoing discussions concerning how PBGC calculates pension underfunding. But the goal is to change the whole psychology with respect to how we deal with the companies and the entities that actually provide the pension plans so we play a much more supportive role and forge more of a cooperative relationship.

The second area of our focus is to ensure that the pension insurance system remains solvent so that workers and employees have confidence in the system. As recently as 1992, there were dire headlines in the *New York Times* reporting that the federal government's pension insurance agency was going to become the next savings and loan debacle. It wasn't until last year that, for the first time, we reported a positive balance, and we are going to be in the black again. The fundamental importance of a sound pension insurance system will require us to be prudent when considering anything that might undermine its security. After 20 years of deficits, we obviously are going to continue to be very cautious in every respect, especially when you consider that there are going to be changes in our variable rate premiums, already scheduled in the law, that could reduce payments for the variable rate to as low as one-quarter to one-third of what they are today. So focusing on maintaining solvency and confidence in the pension insurance program remains a critical goal.

### ■ The ERISA Mandate

The third point involves our ERISA mandate to promote DB pension plans. We are trying to set up cooperative arrangements in which both workers and employers take a new look at DB plans and understand the major role they can play in providing American workers with a more secure retirement. We are all very familiar with the statistics and the significant decline of DB plans insured by PBGC. At our high-water mark, about 1980, there were about 112,000 of these plans. We are at about 50,000 today. This is due primarily to a large number of terminations of smaller plans.

We are well aware of the many reasons that have been suggested for the decline in DB plans: the changes in the economy, the changing

nature of the work force and the work place, the statutory and regulatory requirements, and the lack of understanding on the part of some workers regarding meaningful differences between DB plans and other retirement saving mechanisms.

## ■ Conclusion

As the agency that insures DB pension plans, we can do two things to expand DB coverage. The first is to work with all of our counterparts in the administration, including the Labor and Treasury Departments, to examine the laws and regulations that affect pension plans. By eliminating burdensome and unnecessary obstacles, we can encourage wider pension coverage. We also are talking to actuaries and other pension professionals

about different types of DB plans that are more appropriate for today's worker, especially in small businesses, where fewer than 25 percent of small business workers are covered by any kind of retirement program. Even if DB plans only play a niche role among smaller employers, we want to make sure that there is some sort of DB vehicle there so DB plans do not vanish from the small employer market.

The second area in which PBGC can have an influence is by doing a better job of informing and educating both workers and employers about the benefits of DB plans. We are trying to use PBGC as a bully pulpit to focus attention on the need for retirement security overall and for DB plans in particular.

## *A Congressional View: The Case for Employment-Based Benefits*

by Congressman Earl Pomeroy

### ■ Introduction

The public policy take on future trends in private employee benefits administration comes down to this: The workplace has been the central and most important distribution point for essential coverages, most particularly health and retirement. To the extent that future trends point to a reduced private sector commitment in this area, pressure will build for a public augmentation of employee benefits.

Ultimately, if we have a clear trend toward the reduction of critical benefits by the private sector, we will come to a point down the road where critical mass is reached in terms of the pressure for a public program. The result: brave new government programs. For employers, then, the upshot is a pay-me-now or pay-me-later proposition. I believe the existing employment-based structure offers some very distinct advantages to employers that make it well worth their while to continue the private provision of benefits.

### ■ An Erosion of Private Benefits

First, let us consider whether current trends substantiate the notion that there is an inevitable erosion of the private provision of benefits. I think the evidence is mixed in the large, organized employers. In some cases, there clearly is no erosion of benefits and, in fact, there are new and creative benefits. These may be more cost-effective benefits, and businesses may be capping their outside exposure in certain ways, but in terms of the benefit relationship, it is very much intact.

In terms of other sectors, the results are more mixed. This is particularly important because much of the growth of employment opportunities in the country is not occurring among large employers

with organized work forces but in small employers that lack unions and in the service sector. Benefit provision traditionally has been much lower in both these sectors. I expect the statistics through 1997 would continue much like the data from 1987 through 1992, with about 17 million new jobs in companies employing under 100 and 5.1 million new jobs in companies employing under 1,000. Thus, more than three times as many new jobs are being created in the smaller employer environment.

For example, about 78 percent of those companies employing more than 1,000 workers provide retirement benefits, while only 24 percent of those employing less than 100 and 13 percent of those employing less than 20 provide retirement benefits. In North Dakota, there are many employers with fewer than 20 employees. And so you see that the fall-off of benefits is very dramatic and substantiates what we would tend to think is happening—that the smaller the employer, the less likelihood of benefits. Yet, at the same time, a lot of new job creation is occurring in the small employer segment.

### ■ Financial Pressure and the Erosion of Benefits

To some extent, many of the new jobs in the small business sector are due to outsourcing from larger employers, largely because new hires have become too expensive and outsourcing has become more cost-effective. So there is definite financial pressure contributing to the erosion of benefits. In terms of the types of benefits provided, it may be that a significant cost share is being assumed by employees in their health benefits, not just through larger deductibles but also through significant co-pays, and even through premium sharing or restricting benefits to workers only, leaving

## Do Employers/Employees Still Need Employee Benefits?

employees to pick up the rest of the expense for the family premium.

In the area of retirement benefits, of course, the titanic shift from defined benefit to defined contribution plans shifts the risk to the employee and reduces the relative contribution of employers. Thus, even where benefits are provided, there is significant indication that the benefit is much less generous than previously and that much more responsibility has been shifted to the employee, both in terms of cost and in terms of actual administrative responsibility.

### ■ The Positive Effect of Employee Benefits

There are some very significant, positive reasons for employers to continue providing benefits. I am absolutely convinced that the employer/employee relationship is best served in an atmosphere of shared interest—a community within a work force—where employees and employers are aspiring to the same goals. The employee is contributing to the employer, and the employer is contributing to the employee, not just in terms of salary on a piecemeal basis but rather in terms of a relationship. Although we have moved away from the paternalistic relationship of the past and employees no longer want that anyway, the notion of a relationship remains important. And in today's world, the employment relationship may be the steadiest of all relationships the employee encounters.

There is a fascinating book that draws on statistics of modern life—*Bowling Alone*—which shows bowling at all-time high and league attendance at all-time low. The book dramatically demonstrates the loss of community in our society. With divorce rates of more than 50 percent, we are actually seeing that the employment relationship may supplant the family relationship in terms of its reliability for a certain number of people in the work force today. This is very important. When people are searching for community, to the extent that an employer can create a sense of community—with benefits being an important part of the strategy—it will inure to the employer benefit.

Second, the ways in which financial incentives are structured give employers some

wonderful advantages. Tax deductibility translates into a cost share: Employers provide the benefits, and government helps pay for them because of taxes that otherwise would be owed. That gives the employer virtually all of the benefit. The employees understand that benefits come from their employer, and employers have broad discretion in terms of how those benefits are structured. Thus substantial benefits for employers accrue from the existing structure.

Additionally, some distinctly negative consequences might result for employers if the lay of the land were to change and benefit provision eroded over time. First, there would be reduced support for the existing statutory and tax structure that presently supports the employee benefits system. Interestingly enough, there is no safe quarter in terms of the political parties. You will see the threat to employee benefits in the Republican party primarily manifested by sweeping tax reform. While reform would simplify the tax code, it would wipe out a large number of tax expenditures that presently support the employee benefits system. In short, tax breaks now enjoyed by businesses to provide benefits to their employees would be eliminated. Basically, if the provision of employee benefits continues to change, we elevate the risk of sweeping tax reform that would wipe out existing tax preferences.

On the Democratic side, there is a loss of enthusiasm for the Employee Retirement Income Security Act (ERISA) to the extent that Democrats ever viewed the ERISA regime with enthusiasm. By and large, the ERISA regime has been largely intact since 1974, and represents a bargain struck by the employment community and the government that employers provide the benefits and the government allows it to be done across state lines in a fairly deregulated environment. As erosion in employee benefits occurs, a loss of confidence and faith in the ERISA deal will invite increased calls from Democrats to aggressively regulate areas that have not previously been regulated under ERISA. In the year ahead, look for very substantial calls—probably coming from the president himself—for a new federal regulatory role relative to managed care, such as certain quality assurances in managed care plans. Thus, what businesses may face, on the tax side and on the regulatory side, all are to the disadvantage of employers. In addition,

you would see growing public support for public programs when it is viewed that private programs are no longer getting the job done.

For example, when the Clinton health plan was being discussed and debated, I sent out a questionnaire to everyone I represented in North Dakota. It consisted simply of some open questions such as “Do you have coverage?” and “What do you think of it?” I received about 10,000 responses, which is quite good. I expected people who really had an axe to grind with the existing health care system to self-select, and, mad as hell, tell me about it. To the contrary, 70 percent of the respondents had coverage and most were satisfied with it. I concluded that the administration should have done some more testing before they rolled out their plan. We did not have critical mass for a sweeping overhaul of the health care system. Most people had private benefits and were satisfied with them. Again, as that satisfaction erodes, the concomitant opportunity to enact new public programs will arise. Employers will then be left with the expense of the public program but not the ability to individually tailor benefits or reap the rewards within their work place of providing private benefits. That is why I believe there are substantial positive consequences for employers of providing benefits and substantial negative consequences that will befall employers if private benefit provision continues to erode.

## ■ The Future of Benefits

What does the future hold? I believe it depends on corporate America understanding that good corporate policy runs parallel with good public policy. To the extent that business attempts to take a shortcut, there will be a reconciliation down the road, and ultimately good public policy will carry the day. As employers reduce benefits, they will find themselves carrying the cost of public programs at some point in the future.

The second thing that will determine the outcome is congressional understanding that the private administration of benefits is a system that is working. In light of the current political climate, as well as the financial stresses on our government, the current private benefits system is far and away the most cost-effective way to continue to provide the most good for the most people. As we talk about tax reform or as we talk about regulatory assurances, we should not break the fundamental bargain that ERISA represents.

## ■ Conclusion

For several sessions of Congress, I have cosponsored legislation that would create a retirement savings commission to develop coherent national strategy for facilitating private retirement savings. Such a strategy certainly would emphasize the substantial role of work place retirement plans, of which today we have a hodgepodge. While this commission legislation came close to passing last Congress, it does not have the same level of momentum this time. But in the absence of a comprehensive strategy, we are pursuing efforts to aid small employers in bringing retirement plans on line. We now have both parties kind of falling all over themselves trying to figure out how they can provide some regulatory relief to the small employer, what else they can do, what new tax incentives they can provide. That was unthinkable, even four years ago. In short, it is positive that we may not be getting it right, but at least we are working at it. One provision that may have a solid chance of passing in the year ahead is a defined benefit model called the SAFE (Secure Assets for Employees) bill. It is similar to the savings incentive match plan for employees (SIMPLE) legislation in its regulatory relief focus, and it may help small employers. At a minimum, it may be a niche product. I for one am not prepared to abandon the defined benefit format for anyone, even in the small employer context.



# *Pink Slips, Profits, and Paychecks: Corporate Citizenship in an Era of Smaller Government*

by U.S. Secretary of Labor, Robert B. Reich

George Washington University School of Business and Public  
Management, February 6, 1996

## ■ Introduction

If the government is to do less, then the private sector will have to do more. But the stunning announcement on the first business day of 1996 that one of the nation's largest and most profitable companies would permanently lay off tens of thousands of employees raises profound questions about the private sector's ability to take on more responsibility for Americans' economic well-being. What may feel like a nightmare for the affected workers is, in fact, hailed as a dream-come-true on Wall Street—suggesting that the company may have done exactly the right thing by its shareholders. But that is precisely the issue.

Do companies have obligations beyond the bottom line? Do they owe anything to their workers, their workers' families, and their communities?

Even some of the most orthodox defenders of the free market have said that movie studios, record companies, and television networks should forswear lewdness or violence, although pandering to audiences' baser appetites would yield rich profits. The profit principle, it seems, is something short of absolute. What, then, about a corporation's duty to its employees, their families, and the communities in which they live? Might not the sudden loss of a paycheck be at least as damaging to family values as a titillating screen performance?

In fact, family values are intricately intertwined with what might be called home economics. The necessity to work longer hours in order to make ends meet may mean that a parent isn't home when a child is in most need of parenting. The urgency of finding a new job may mean that

one spouse must move to another city, or must commute long distances, leaving family behind. Or it may require that an entire family uproot itself from friends and relatives. The financial pressures resulting from a declining paycheck or the loss of a job can disrupt and sometimes destroy families. Whether we like it or not—whether we recognize it or not—corporate decision-makers have significant influence over the future strength of America's families and communities.

Yet corporate executives protest, with some justification, that they have no choice. They argue that they must do what is in the interest of shareholders even at the expense of employees and the communities in which they live. If wages and benefits can be cut without imperiling production, they must be cut. If employees' efforts do not generate a sufficient return, the jobs have to go. And if an entire community loses its economic base because the company can do its work more efficiently elsewhere, then so be it. Managers who balk at executing the judgments of the market fear, with reason, that they will quickly face their own day of reckoning.

Yet this restricted vision of stewardship is ultimately disastrous for America—including American business. Corporate leaders must reconsider.

This era of government downsizing is also a time for corporations to size up their responsibilities to America. As the President noted in his State of the Union address, employers must do their part along with employees—sharing with workers the benefits of the good years, not just the burdens of the bad. It is a time for companies to focus beyond

the bottom line. It is a time for a new corporate citizenship.

I would like to address what such a reconsideration might entail. But first, a little perspective on how we reached this point.

### ■ The End of the Social Compact

Chief executives once sang a different tune. In a 1951 address that was typical of the era, Frank Abrams, chairman of Standard Oil of New Jersey, proclaimed, “The job of management is to maintain an equitable and working balance among the claims of the various directly interested groups ... stockholders, employees, customers and the public at large.” That same year, *Fortune* magazine lectured executives on their duty to be “industrial statesmen” who worked for the good of their employees and communities as well as shareholders.

This implicit social compact among corporations, their employees, and communities with which they dealt survived into the 1960’s and 1970’s. So long as the company earned healthy profits, employees could be assured of secure jobs with rising wages and benefits, and their communities could count on a steady tax base. When the economy turned sour, employees might be laid off for a time. But when the economy revived, the work would return. The very term “layoff” suggested a temporary separation.

The compact was enforced in several ways. Unions obviously played an important role. There was also a public expectation that when a company did well, its employees and community would also do well. It would be unseemly —“un-American,” if you will—for a business not to share the benefits of its success.

What has changed? For one thing, competition. American businesses have been transformed from comfortable and stable rivals into bloodletting gladiators. Information technologies have radically reduced the transaction time among suppliers, wholesalers, retailers, and customers. Airlines, telephone companies, utilities, common carriers—and Wall Street itself—have been deregulated. Global competitors threaten the very survival of American manufacturers. Entry barriers such as preferential access to capital markets have dropped, allowing small companies to grab market share from big ones.

Today, vast amounts of capital can be moved from place to place at the push of a key on a personal computer. Investors face an ever-wider array of choices of where to put their money.

This “electronic capitalism” has replaced the gentlemanly investment system that had given “industrial statesmen” the discretion to balance the interests of shareholders against those of employees and communities. Now, any chief executive who hesitates to subordinate all else to maximize shareholder returns risks trouble. By the same token, a chief executive who ruthlessly subordinates all else can reap handsome rewards. We are faced with the spectacle of CEOs pocketing multi-million dollar bonuses and stock options after abandoning their employees and communities—indeed, precisely because they have abandoned their employees and communities.

The social compact has come undone. Unions are less able to enforce it. Public norms and expectations cannot sustain it. Profitable companies are shedding workers and they are leaving town. Even the term “layoff” no longer means what it used to. Most layoffs are now permanent. We need a new word to describe what the phenomenon. Perhaps we should call them not “layoffs” but “cast-offs.”

### ■ The Trap of the Old Economy

This transformation of the corporation into the agent of the shareholder alone, and the consequent stranding of so many working people and their communities, is occurring at a particularly unfortunate time. Much of the American work force is facing a stark challenge of adapting to new economic realities, just as sources of support in meeting that challenge are quickly eroding.

The same explosion of technological change and global integration that has intensified competition among companies and expanded investors’ options is also changing the nature of work. The mass-production jobs that were once the gateways to the middle class are being replaced by jobs requiring technical or problem-solving skills and the capacity to continuously acquire new skills. The earnings of people who are poorly educated to begin with, or who have outmoded skills, are declining. The earnings of those with good educations and the right skills are rising. The gap is widening rapidly.

Tens of millions of Americans remain trapped in the old economy. I have seen them and talked

with them across the nation. They are laid-off—cast-off—and jobless, or in new jobs with worse wages and benefits. In fact, most people who have lost their jobs in recent years and found new ones never catch up with the earnings and benefits they once had.<sup>1</sup> Or they have started out in a low-wage job and cannot seem to get ahead no matter how hard they work. They cannot easily acquire on their own the education and training needed to succeed in the new economy.

This is a problem for all of us, not just the bottom half of the workforce. Almost three quarters of our national output comes from people; only one quarter from machinery. The quality of our labor force is the engine of economic growth; physical capital is the caboose. If a significant portion of the American workforce lacks the skills to succeed in the new economy, the standard of living of all Americans is imperiled.

## ■ The Consequence

The corporation's relentless focus on one goal—the exclusive goal of maximizing shareholder returns—makes it less willing or able to ease the transition of the American workforce to the new economy. Were the old social compact still in effect, companies would bring their workers along, and pay the extra freight. With the compact voided, even highly profitable companies now leave their workers behind.

The narrow economic calculus discourages such investments: The nation as a whole may be better off when employers provide adequate pensions and decent health coverage and when they teach their workers basic or industry-wide skills beyond what is required to function effectively in their current job. The economy as a whole may be more productive and flexible when employers see to it that workers who are no longer needed get trained for and placed in new jobs. Yet because the company's shareholders do not reap the full benefits of these sorts of investments, even the most enlightened Chief Executive Officer will be loathe to make them to the extent that society needs.

To be sure, some companies do take the “high road” to higher profits—bringing employees along while improving and enlarging their businesses and thus expanding their payrolls—rather than the low road of suppressing wages and paring payrolls. And the shareholders of these companies do perfectly well. In fact, the long-term payoff from boosting worker loyalty and security and from retaining experienced workers can exceed the more immediate financial benefits of taking the “low road.”

Let me give you several examples of high-road companies. Just before last Christmas, a tragic fire destroyed the factory of Malden Mills in Methuen, Massachusetts, and with it the security and the hopes of the 2,400 people who work there. Three days later, the owner of the firm, Mr. Aaron Feuerstein, appeared before his employees and told them that he would not only rebuild and rehire every one of them, but he would also continue paying them their salaries and their benefits during the shutdown. Today, Malden Mills is well on its way back to full operation.

Or consider another company—this one publicly held. Corning, Inc., is ensuring its worldwide leadership in its diverse product line—from housewares to telecommunications—through a commitment to employee participation and training. The company has won the Malcolm Baldrige National Quality Award and has been recognized by *Working Mother* magazine for providing a family-friendly work environment.

There are many other examples of high-road companies—Xerox, Chrysler, Republic Engineered Steels—to name only a few. But I wish there were more. Unfortunately, the high road is the exception rather than the rule. In too many instances, top executives are not creating value; they are merely redistributing income from employees and their communities to shareholders.

As corporations have focused more and more exclusively on increasing shareholders' returns, the consequences have become obvious. The stock market has soared while pink slips have proliferated, health care and pensions have been cut, and the paychecks of most employees have gone nowhere. Top executives, talented entrepreneurs, and Wall Street intermediaries have never done as well. Workers without adequate education and skills, or with outmoded skills, are in free fall. This situation is not sustainable. But what can be done about it?

---

<sup>1</sup> Stevens, Ann Huff, “Long-term Effects of Job Displacement: Evidence from the Panel Study of Income Dynamics,” NBER Working Paper #5343, November 1995.

### ■ The Limits on the Public Sector

Historians looking back on this era will record the double irony. As noted, the transformation of the corporation into the agent of the shareholder alone is occurring at a time just when the American workforce is in most need of help adapting to a new economic system. But it is also occurring just when the public sector is particularly constrained from filling the void. This administration came to office hobbled by more than a decade of exploding public indebtedness. We had no choice but to make deficit reduction a first priority. Moreover, the public is increasingly skeptical of the federal government's capacity to run large programs. As the President noted in the State of the Union Address, "The era of big government is over."

Regardless of how the current budget negotiations are settled, in the future the federal government will have a more modest role in safeguarding the economic security of Americans. States and localities may have more leeway, in principle, but far fewer resources. And because they will compete with other states and locales to attract companies, they will be reluctant to impose higher taxes or any other extra burdens.

To be sure, government can make more effective use of the resources it does have. We have already taken steps to change the unemployment insurance system—designed to provide income support during temporary layoffs—into a genuine re-employment system designed to move people rapidly into new jobs and get them the training they need. Hopefully, Congress will heed the President's call to consolidate federal job-training programs into vouchers that unemployed or low-wage workers can use at community colleges or technical schools to get the skills they need. And we want to make pensions and health insurance more portable, so that they will move with people from job to job, and be available between jobs. The Administration strongly supports legislation now pending before Congress that would bar health insurers from cancelling policies when a job is lost.

The President remains committed to education and job training. But even if we succeed in maintaining current levels of funding in the face of severe budget constraints, it will not be nearly enough. State and local governments across America are paring back. Classrooms in too many

of our cities remain overcrowded. Tuition at too many state universities and community colleges is rising faster than inflation. Vocational and technical education is too often obsolete or woefully inadequate to what the times demand. By one estimate, merely to return to the level of inequality at the end of the 1970s would require an additional yearly public investment in the skills of the bottom half of our workforce of approximately \$60 billion.<sup>2</sup> It is a safe bet that funding of that magnitude will not be forthcoming any time soon.

### ■ Corporate Responsibility Revisited

One ostensible purpose of eliminating the federal budget deficit is to give the private sector more capital to invest, thus widening opportunities and raising earnings for all Americans. Balancing the federal budget is not a goal in itself, but is a means to higher living standards for all.

Yet as we all see, there is no guarantee that corporations will use the extra resources in this way. Maximizing shareholders' returns may require investing the extra dollars in production abroad; or in labor-saving equipment intended to reduce wages and cut jobs; or in mergers, acquisitions, and divestitures that result in mass layoffs.

How, then, to get the private sector to take more responsibility for their employees and the communities in which they live, as the federal government retreats?

I do not advocate a return to the era of industrial statesmanship. That era, too, is over. Even if we could turn the clock back and enlarge upon the CEO's former discretion in balancing the interests of shareholders against those of employees and communities, it is far from clear that

---

<sup>2</sup> James J. Heckman, Rebecca Roselius, and Jeffrey Smith, "U.S. Education and Training Policy: A Re-evaluation of the Underlying Assumptions Behind the 'New Consensus,'" in *Labor Markets, Employment Policy, and Job Creation*, edited by Lewis Solmon and Alec Levenson, Westview Press, 1994. Heckman's estimate works out to \$170 billion per year for 10 years, but that sum includes the cost to individuals of foregoing income during the course of job training. Therefore, cost to the government is probably closer to \$60 billion per year.

society should vest such power in private citizens.

Exhortation can have some effect. After all, most companies are understandably concerned about their public image. Good corporate citizenship is often a wise business strategy. One recent example involves the growing problem of sweatshops in the garment industry. As anyone who has had anything to do with this industry knows, the big retailers call the shots. They have the buying power to determine how the industry runs. After slave-labor conditions were discovered in California sweatshops last summer, we published the names of several of the nation's largest retailers to which the garments in question had been shipped. Subsequently, during the Christmas gift-buying season, we published the names of big retailers that had pledged to regularly inspect their contractors or to require that the manufacturers with whom they deal do so. These measures have begun to work. More than a dozen of the nation's top retailers have joined us in our campaign against sweatshops. I hope and expect that others will do so as well.

Earlier I listed several companies that have distinguished themselves as fine employers. Many companies are also taking an active role in improving their communities—actively participating in local training programs and contributing to the public schools. They too deserve commendation. Unfortunately, these efforts are too often cancelled out by companies that conduct bidding wars among states or localities, threatening to leave one place or offering to go to another depending on how much their taxes are cut or how much of a cash subsidy they can elicit from the public sector. Such tactics result in a giant zero-sum game, which fails to create a single new job but merely moves the old ones from place to place, leaving a trail of pink slips and abandoned communities. It also puts companies that don't play the game and don't get the tax breaks or subsidies at a competitive disadvantage. Worse yet, such bidding wars drain state and local governments of scarce resources that could otherwise be invested in schools, technical training, and physical infrastructure. Starting bidding wars for tax breaks or subsidies is the opposite of good corporate citizenship, and it deserves condemnation.

Assume that we have gone as far as possible in exhorting companies to be more responsible and

in quelling their appetite for political favor. We have gained some ground, but most working people are still insecure and the income gap continues to widen. What else can be done?

## ■ A Modest Proposal

Let's look at the basics. The corporation is, remember, a creation of law; it does not exist in nature. The corporate form of business carries special advantages: Investors are not personally liable for damages or debts. A corporation has the same rights of free speech and legal action that an individual has—but can live forever. There are disadvantages as well: Corporations must pay taxes on their incomes, as do the investors who receive dividends, resulting in double taxation.

If we want business to take more responsibility for the American workforce and its transformation to the new global economy, we will have to alter this mix of advantages and disadvantages to provide the proper incentives. If we want companies to do things that do not necessarily improve the returns to shareholders but that are beneficial for the economy and society as a whole—actions such as upgrading the general skills of employees, providing them with decent pension and health care protections, sharing more of the profits with them, and, when laying them off, retraining them and placing them in new jobs—we have to give business an economic reason to do so. One possibility would be to reduce or eliminate corporate income taxes only for companies that achieve certain minimum requirements along these dimensions.

This is, admittedly, a modest proposal. The tax code already treats different types of organization differently. Charitable organizations, meeting certain minimal requirements of structure and behavior, are treated quite differently from the standard corporation, as are partnerships and proprietorships. These differences reflect judgments about the societal benefits and responsibilities stemming from these various forms of organization. Similarly, there are societal advantages in improving the quality and flexibility of the work force, and societal costs in failing to do so. Certain enterprises may be well-positioned to maximize these advantages and minimize these costs. Let us, as a society, encourage them to do so, and reward them accordingly.

## Do Employers/Employees Still Need Employee Benefits?

Those who worship at the altar of the free market need not fear blasphemy. I am not suggesting that corporations be required (or induced) to keep on their payroll workers who don't contribute to the bottom line. I am not asking that they remain in communities when there are more efficient places to produce their wares, or to take any other action which may reduce returns to shareholders. I am suggesting, however, a means of making corporations more accountable for the social costs and benefits of economic change.

### ■ A National Discussion

Others will have different ideas for how corporations can best respond to the growing inequalities and insecurities in our workforce. Let us have a national discussion about this—about the role of the corporation at this unique moment in history. Surely this discussion is no less important than the one we are having about the role of government. Chief executives should contribute to this discussion—not in order to defend the status quo but in recognition that the trends we are observing cannot be allowed to continue. In this era of smaller government, at a time when so many Americans are foundering in the face of record profits and a soaring stock market, the failure of the private

sector to respond imperils this nation's continued prosperity and stability.

### ■ Conclusion

Will the end of the era of big government witness a new era of corporate responsibility? Nobody can yet say for sure. But I am certain that, unless checked, the resentment of stranded workers will eventually undermine the political preconditions for continued business prosperity. If too many of our people feel excluded from the upside gains of a growing economy and disproportionately burdened by its downside risks and costs, they will support policies that sacrifice growth in favor of economic security—policies like trade protection, capital controls, and inflexible rules of employment.

I sincerely hope we do not ever get to that point. You in this room have an enormous interest in sustaining the culture of openness and economic dynamism that has served business so well. Fortunately, as you move on to positions of corporate leadership, you will also be able to exercise your influence in ways that make such an outcome more likely. I urge you, for the sake of our country, to help create and sustain a new era of corporate citizenship.

This document can be found online at  
[www.dol.gov/dol/asp/public/programs/history/reich/speedhes/sp960206.htm](http://www.dol.gov/dol/asp/public/programs/history/reich/speedhes/sp960206.htm)

# B

## *Job Creation and Employment Opportunities: The United States Labor Market, 1993–1996*

A report by the Council of Economic Advisers with the U.S. Department of Labor, Office of the Chief Economist, April 23, 1996

### ■ Executive Summary

- Since January 1993, employment has grown rapidly—expanding by 8.5 million net new jobs. Based on comparable data, employment growth has been stronger in the United States than in any of our G-7 partners.
- Two-thirds (68 percent) of the net growth in full-time employment between February 1994 and February 1996 occurred in industry/occupation groups paying above-median wages. More than half of the net growth occurred in the top 30 percent of job categories. Although many of these new jobs were in the service sector, they did not conform to stereotypes.
- The evidence suggests that the vast majority of the net new jobs are full time. Both the household and establishment survey suggests that the proportion of employed persons working multiple jobs has remained at about 6 percent.
- The share of workers holding multiple jobs has remained roughly constant since the late 1980s. The household survey suggests that the proportion of employed persons working multiple jobs has remained at about 6 percent.
- The overall number of workers displaced was roughly the same proportion of the workforce in 1991–2 as in 1981–2, although the recession during the early 1980s was more severe than the one during the early 1990s. However, it is difficult to determine precisely how to account for the business cycle in assessing displacement rates. The official data on displacement after 1993 are not yet available, but an alternative job loss measure has fallen since then.
- The characteristics of displaced workers have changed somewhat. Displacement rates for older, white-collar, and better educated workers have risen, although they remain low relative to those for younger, blue-collar, and less educated workers.
- Despite some recent positive signs, long-term challenges remain. Between the 1970s and the early 1990s, real wages stagnated and income inequality widened. But in 1994, for the first time in five years, real median family income rose and the poverty rate fell. We must continue to build on these gains to improve living standards and reduce income inequality. And although many more jobs are being created than destroyed, a dynamic economy inevitably imposes costs on some workers. For example, data from 1981 to 1993 indicate that job losers were more likely to be permanently dismissed (rather than temporarily laid-off), that older workers were subject to greater risk of job displacement, and that the average real wage loss due to displacement was significant and persistent. In order to obtain the full benefits of a dynamic economy, we must reduce these adjustment costs.

### ■ Introduction

Employment growth in the United States has been robust since January 1993, with nonfarm payroll employment expanding by 8.5 million. Based on comparable data, U.S. employment growth has been stronger than in any of our G-7 partners. The first purpose of this study is to sift through the evidence to develop a more detailed picture of where the job growth is occurring and the nature of the jobs being created.

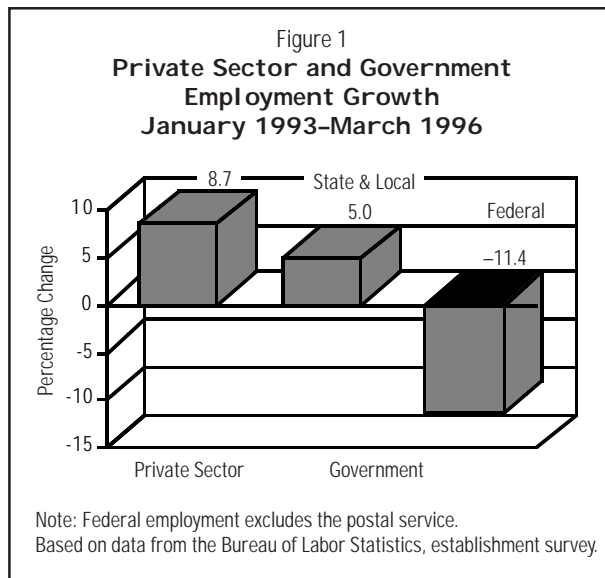
The news is encouraging: Employment has grown disproportionately in the industry/occupation job categories paying above-median wages. Even in the traditionally lower-paying service industry, a majority of the net employment growth has been managerial and professional specialty positions, which typically pay above-median wages. Contrary to conventional wisdom, the new jobs are not disproportionately part-time, low-skill positions.

The second purpose of the study is to examine job displacement. Although the economy is generating millions of net new jobs, it is clear that the speed of transformation in the U.S. labor market has left many American workers anxious about their economic futures. A dynamic and growing labor market can impose costs as well as offer opportunities, and policies to help workers deal with job transitions are critical to reducing these adjustment costs.

### ■ Job Creation

According to the Bureau of Labor Statistics establishment survey, nonfarm employment grew by 8.5 million (7.8 percent) between January 1993 and March 1996. Private-sector payrolls (up 8.7 percent) grew even faster, while federal payrolls (excluding the postal service) actually declined by 11.4 percent, and state and local government payrolls combined grew by 5.0 percent (see figure 1). The public sector's share of employment is therefore falling.

The unemployment rate has fallen from more than 7 percent in January 1993 to 5.6 percent in March 1996, and has been below 6 percent for 19 consecutive months. Given current demographic trends, the Bureau of Labor Statistics projects the labor force to continue growing by approximately 1.1 percent annually between 1994 and 2005.



Therefore, to keep unemployment low, the economy needs to average a net increase of about 120,000 new jobs per month. Employment is now expanding at a pace consistent with steady, sustainable growth and low unemployment.

### International Comparisons

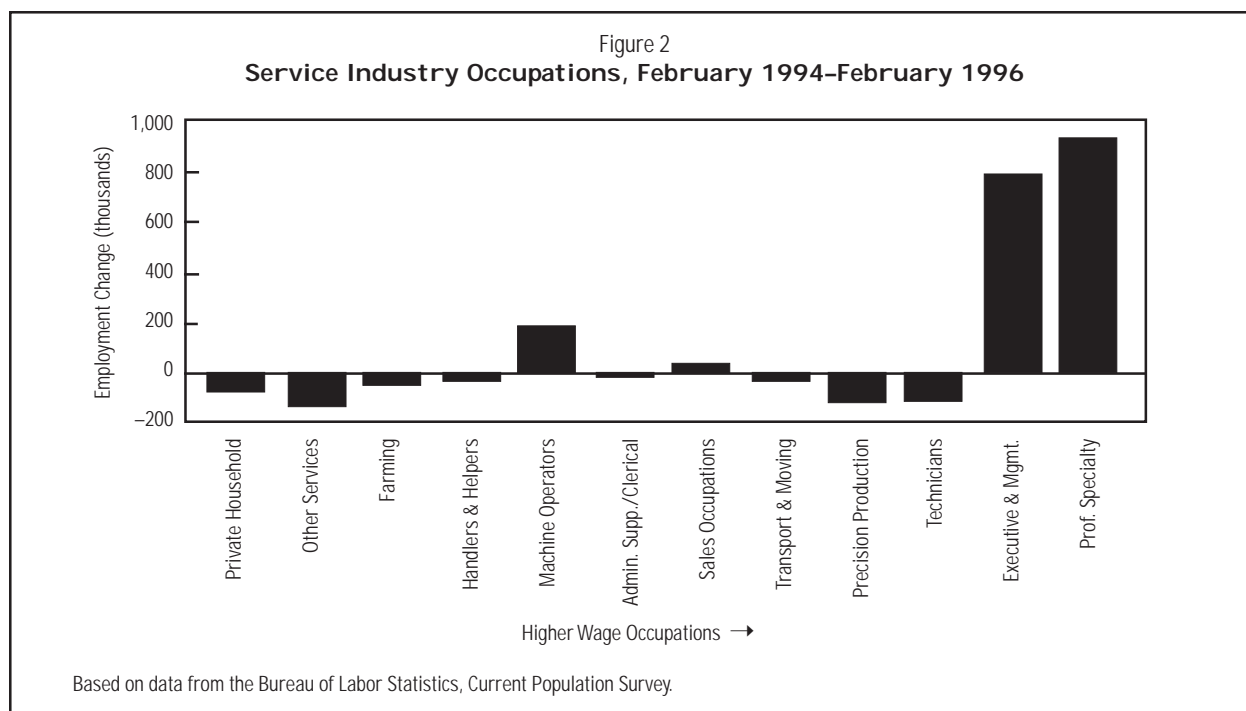
The United States has experienced faster employment growth than any of the other G-7 countries. Only Canada has experienced any significant employment growth, while the other G-7 members have experienced negligible job gains or outright declines. The U.S. labor market performance is particularly impressive given that it has occurred during a period in which the federal budget deficit was reduced from 4.9 percent of GDP in FY 1992 to an estimated 1.9 percent in FY 1996.

### ■ The Quality of Jobs

According to data from the Current Population Survey, 38 percent of the net employment growth between February 1994 and February 1996 occurred in "service" industries.<sup>1</sup> This section therefore first examines job quality in the service sector.

<sup>1</sup> A major redesign of the survey in January 1994 makes long-term comparisons difficult. Moreover, because the household survey data are often not seasonally adjusted, we try to compare the same month in different years. The sample period is therefore February 1994 to February 1996.





It then presents a more detailed analysis of all sectors of the economy.

### Higher-Paid Jobs in the Service Sector

The “service sector” is quite diverse. It includes many low-wage positions, but also many high-wage positions in financial services, hospitals, and computer and accounting services. For this reason, it is important to determine whether employment growth within services has occurred primarily in the high-skill managerial and professional specialty occupations or in low-paying occupations. The Current Population Survey provides evidence on employment growth by occupation.

- The data show that recent net job growth in services has been predominantly in managerial or professional specialty positions (figure 2). These are relatively high-paid occupations.

Thus, the conventional wisdom suggesting that the growth in service sector employment is disproportionately concentrated in low-wage job categories is wrong.

### Growth of Higher-Paid Jobs by Industry and Occupation

An even more detailed picture of the nature of the new jobs created emerges from an examination of

industry/occupation categories. Using data from the February 1994 and February 1996 Current Population Surveys, we sorted full-time workers into 45 detailed occupations in 22 major industries. A quarter of the sample reported earnings in addition to the industries and occupations in which they worked. Although many of the possible 990 industry/occupation cells were small, only 6 percent of the population-weighted sample was found in cells with 10 or fewer sample members reporting earnings data for both surveys. In order to avoid the high sampling variability associated with insufficient numbers of observations, we eliminated these small cells from our analysis. There were 287 job categories in each year after eliminating the cells with 10 or fewer sample members.<sup>2</sup>

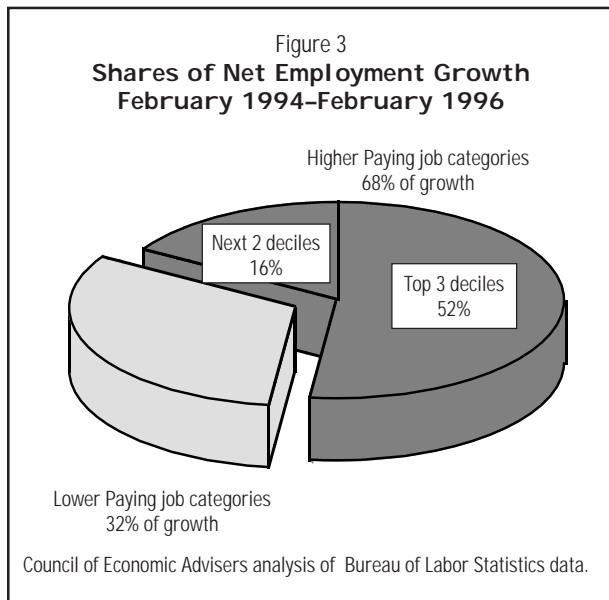
The first step in our analysis was to rank the 287 occupation/industry cells by the median weekly earnings of full-time workers. Approximately half of all full-time employment in February 1994 was found in cells with median weekly earnings above \$480 (in February 1996 dollars). The employment growth in these “high-wage” job categories can then be compared to overall employment growth. Our key measure of job quality is the

<sup>2</sup> The average remaining industry/occupation cells included 331 sample members and contained earnings data for 70 sample members.

## Do Employers/Employees Still Need Employee Benefits?

percentage of total employment growth that occurred within the occupation and industry categories that paid above-median wages in February 1994. The results were striking.

- Two-thirds (68 percent) of the net growth in full-time employment between February 1994 and February 1996 was found in job categories paying above-median wages.<sup>3</sup>



Another way to summarize the results from our industry/occupation analysis is shown in figure 3. Here we ranked the 287 industry/occupation categories by their median weekly earnings for full-time workers, and sorted them into 10 ordered groupings—each with 10 percent of employment in February 1994—by their earnings ranking. If all 10 groups had grown proportionately to their share of employment in February 1994, each would have accounted for 10 percent of the net new employment. But rather than accounting for their proportional share of total employment growth (30 percent), the top three deciles accounted for much more (more than 50 percent).

- More than half (52 percent) of employment growth was found in the top 30 percent of job categories.

<sup>3</sup> As a result of sampling variability in the monthly surveys, the precise figure may be affected by the months chosen for comparison. We have also performed the same exercise using hourly wages for full-time and part-time workers combined. The results are similar.

## More Detailed Data on Occupations

The Bureau of Labor Statistics also publishes an annual series on wages and employment growth for an extremely detailed set of occupational categories, based on pooling a year's population survey responses. The survey included 488 categories with data for both 1994 and 1995 (the 1996 annual estimates will not be available until next year). The results from this data set give additional support to the results reported above. Some of the categories with the largest employment gains included "sales supervisors and proprietors," "electricians," "managers of marketing and advertising," and "electrical and electronic engineers." And consistent with the above calculations, the detailed occupations in the top half of the wage distribution accounted for 70 percent of the net employment growth, while the top 10 percent of the distribution produced a third of net employment growth.

- Employment in "hamburger-flipping jobs"<sup>4</sup> actually fell between 1994 and 1995.

In sum, the data indicate the following about the nature of recent job growth:

- Two-thirds of full-time job growth between February 1994 and February 1996 occurred in occupation/industry categories paying above-median wages.
- More than half of full-time job growth between February 1994 and February 1996 was in occupation/industry categories paying even higher wages (top 30 percent).

## The New Jobs Are Mostly Full Time

Data from both the Current Population Survey and the BLS establishment survey indicate that most of the net new jobs are full time. The Current Population Survey includes data on part-time employment. Figure 4 portrays the proportion of employed persons reporting that they worked part time for "economic" as well as "non-economic" reasons.

<sup>4</sup> These are defined as workers in the food counter, fountain, and related occupations; and kitchen workers, food preparation, and miscellaneous food-preparation occupations. The result holds both for full-time and for all workers (full-time and part-time combined).

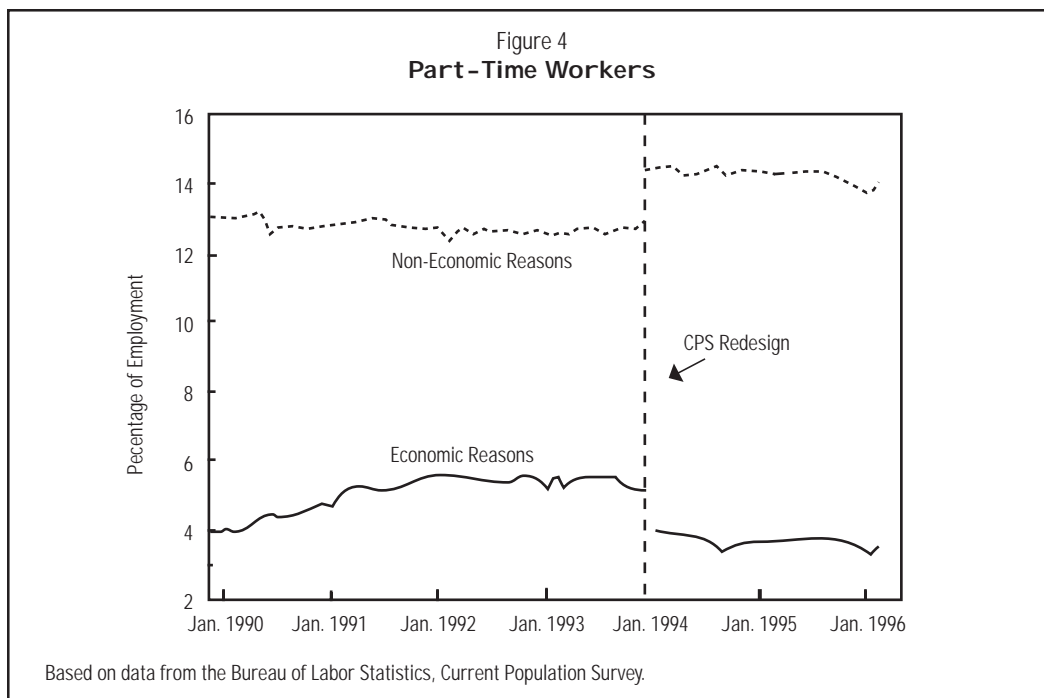


Table 1  
**Employment and Hours Worked  
at Nonfarm Establishments**

	January 1993	March 1996	Percentage Change
Employment (millions)	109.5	118.0	7.8
Hours worked (annual basis, billions)	202.2	217.8	7.7

Based on data from the Bureau of Labor Statistics.

Despite a shift in both series corresponding to a redesign of the survey in January 1994, the proportion of employed persons reporting to be employed part time has actually declined slightly. The declines have been even larger for those working part time for “economic” reasons, often referred to as the “involuntarily underemployed.”

The establishment data indirectly support the conclusions from the household survey. If the net new jobs were disproportionately part time, we would expect average hours worked per job to fall.<sup>5</sup> But the employment data show that average hours worked for all jobs (including the new jobs) remained roughly constant: The number of nonfarm payroll positions and the total number of hours worked both grew at about the same rate over the

past three years (see table 1). This suggests that the new jobs have not been disproportionately part-time.

- Data collected from both households and companies indicate that most of the net job creation over the past three years has been full time.

#### Little Change in Multiple Job Holding

Some Americans decide to hold more than one job, in order to save for a house or to meet unexpected expenses. Nonetheless, multiple job holding would raise concerns about the quality of jobs if an increasing number of Americans have to work two or three jobs to make ends meet. A frustrated worker is said to have reacted to the news that 8.5 million new jobs have been created by replying, “Yeah, and I have three of them.” But the data simply do not indicate any significant movement in multiple job holding. The percentage of employed persons working multiple jobs has remained in the neighborhood of 6 percent since the late 1980s.

<sup>5</sup> This assumes that average hours worked on existing jobs did not change. Unfortunately, existing statistics do not allow us to verify whether this assumption holds.

**Impact on Wages and Income Inequality**

Between the 1970s and the early 1990s, average real wage growth slowed and income inequality widened. In recent years, however, there are some encouraging signs that the tide may be turning on these labor market challenges. In 1994—the most recent year for which data are available—real median family income rose and the poverty rate fell for the first time in five years. Improving job quality can enhance these recent gains, although the effects may become manifest only after an extended period of time. As discussed above, most of the recent net increase in employment has occurred in occupations and industries that typically pay above-median wages. But the additions to the work force have had only a marginal effect on aggregate wage data, because net employment growth represents only a relatively small percentage of total employment for the U.S. work force. Nevertheless, the news about the quality of net job growth is encouraging and bodes well for the future. Although there is still much left to be done, recent trends show that the labor market is on the right track.

**■ The Challenges Created by a Dynamic Labor Market**

A dynamic, healthy labor market creates enough jobs to accommodate a growing labor force. But at the same time, jobs in a dynamic economy continually shift away from certain areas and toward other areas with greater growth opportunities. (For example, the decline in federal payrolls has been more than offset by increases in private-sector employment.) Meanwhile, research conducted by Robert Valletta and published by the Federal Reserve Bank of San Francisco concluded that, after controlling for the business cycle, the share of unemployment attributable to permanent dismissals (rather than temporary layoffs) has increased—particularly from 1980 to 1993. A higher proportion of job losers thus do not expect to be recalled by their former employers. As a result of these labor market changes, many workers feel less secure about their job prospects.

While the anxiety felt by many workers is real and important, it is also important to take an objective look at the evidence. Not all sources demonstrate increased economic anxiety. For

example, the Michigan and Conference Board surveys of consumer sentiment recently have been above their historical averages. Respondents to those surveys apparently do not view employment prospects as poor. Nevertheless, considerable evidence suggests that many Americans are concerned, some very concerned, about job displacement. In order to know how best to respond to these concerns, we need a more precise assessment of the nature of the displacement problem. Has job displacement in fact increased? Is it affecting different categories of individuals today than it did 10 years ago? This section of the report examines these questions.

Table 2  
**Changing Incidence of Displacement**

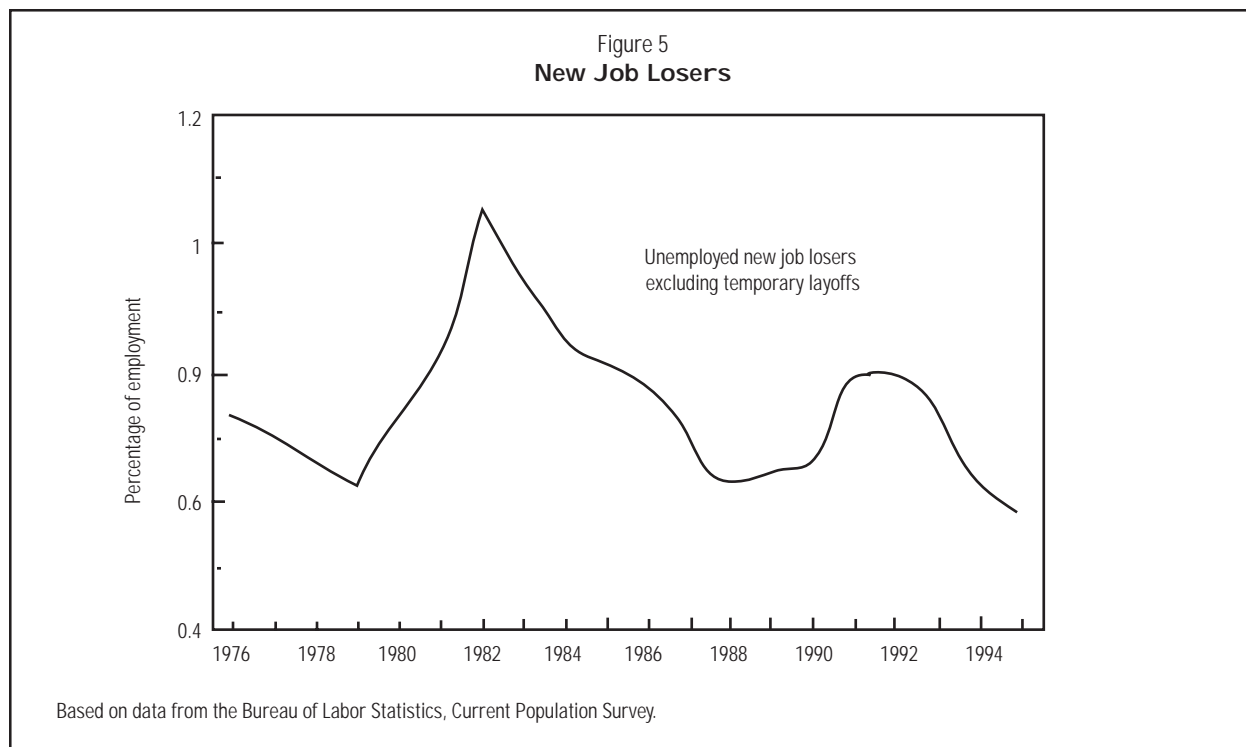
	Displacement Rates*	
	1981–2	1991–2
Total Occupations	3.9	3.8
White collar	2.6	3.6
Blue collar	7.3	5.2
Age		
25–34 years of age	5.0	3.8
35–44 years of age	3.8	3.9
45–54 years of age	3.0	3.8
55+ years of age	3.6	4.3

\*Expressed as a percentage of workers with three or more years of tenure on their current job.  
Based on data from the Bureau of Labor Statistics.

**Evidence from the Displaced Worker Survey**

The BLS conducts a survey of displaced workers every two years, with the most recent published data from February 1994. Table 2 summarizes the displacement rates (defined as the number of workers displaced per 100 employed) for the 1981–82 and 1991–92 periods.

The overall number of workers displaced was roughly the same proportion of the work force in 1991–2 as in 1981–2, although the recession in the early 1980s was more severe than the one in the early 1990s. However, it is difficult to determine precisely how to account for the business cycle in assessing displacement rates. A comparison of aggregate displacement rates also conceals a fundamental change in the incidence of job displacement. The table shows that older, white-collar workers were considerably more at risk of displace-



ment in 1991–92 than during the previous recession. And further analysis shows that job displacement rates rose for more educated workers. These changes in the incidence of job displacement may be a reason for the reports of heightened anxiety regarding job loss. Although blue-collar and less educated workers remain more likely to be displaced than others, displacement rates have clearly risen among those workers who had previously been largely immune from the threat of job dislocation.

- Displacement rates for older and more educated workers, who had largely been unaccustomed to facing such risk, rose between 1981–2 and 1991–2.

### Indicators of Recent Job Displacement

As noted above, the Displaced Worker survey is conducted only once every two years, and the most recent published data are from the 1994 survey, which covers the 1991–93 period. Unfortunately, the official displacement data for the period after 1993 are not yet available.<sup>6</sup> (The results of the 1996

<sup>6</sup> Based on previous experience, the displacement rate for 1993 is likely to be lower in the 1996 survey data than in the 1994 survey data.

Displaced Worker Survey, conducted in February, should be available later this summer.) Until the official displacement data are available, other measures can be used to get an indication of how the labor market has been changing since 1993.

One indicator comes from unemployment data on job losers. Figure 5 shows the job loss rate, defined as the ratio of recently unemployed job losers—those who are unemployed due to job loss (as opposed to job leavers or labor market entrants), unemployed less than five weeks, and not on temporary layoff—to total employment in the Current Population Survey. This job loss rate roughly approximates the net “flow” into unemployment due to job loss, because it considers only those who have lost their jobs recently. As shown in Figure 5, the job loss rate has continued to fall since 1992.

- Official data on job displacement are not yet available beyond 1993. But based on unemployment data for job losers, the job loss rate has declined since then.

### The Costs of Job Displacement

The Displaced Worker Survey provides information on the impact of job loss.

## Bibliography

- Conte, Christopher R. "The Changing World of Work and Employee Benefits." *EBRI Notes*, no. 3 (Employee Benefit Research Institute, March 1996): 1-4.
- \_\_\_\_\_. "Comprehensive Tax Reform: Implications for Economic Security and Employee Benefits." *EBRI Notes* (Employee Benefit Research Institute, June 1996): 1-5.
- \_\_\_\_\_. "Do Employers/Employees Still Need Employee Benefits?" *EBRI Notes* no. 2 (Employee Benefit Research Institute, February 1998): 1-4.
- Fronstin, Paul. "Employee Benefits, Retirement Patterns, and Implications for Increased Work Life." *EBRI Issue Brief* no. 184 (Employee Benefit Research Institute, April 1997).
- \_\_\_\_\_. "Employee Benefits and Workers in the Nonprofit Sector." *EBRI Notes*, no. 4 (Employee Benefit Research Institute, April 1997): 3-6.
- \_\_\_\_\_. "Employment-Based Health Insurance and the Changing Work Force." *EBRI Notes*, no. 6 (Employee Benefit Research Institute, June 1997): 1-3.
- \_\_\_\_\_. "Health Benefits in a Flat Tax World: Results from an EBRI/Gallup Survey." *EBRI Notes* no. 7 (Employee Benefit Research Institute, July 1996): 4-5.
- \_\_\_\_\_. "Retiree Health Benefits: What the Changes May Mean for Future Benefits." *EBRI Issue Brief* no. 175 (Employee Benefit Research Institute, July 1996).
- Garlick, David. "Benefits in Small Independent Businesses." *EBRI Notes*, no. 5 (Employee Benefit Research Institute, May 1997): 5-8.
- \_\_\_\_\_. "Benefits in Small Private Establishments." *EBRI Notes*, no. 2 (Employee Benefit Research Institute, February 1997): 6-9.
- Olsen, Kelly. "Retirement Annuity and Employment-Based Pension Income." *EBRI Notes*, no. 6 (Employee Benefit Research Institute, June 1997): 4-6.
- Olsen, Kelly, and Jack VanDerhei. "Defined Contribution Plan Dominance Grows Across Sectors and Employer Sizes, While Mega Defined Benefit Plans Remain Strong: Where We Are and Where We Are Going." *EBRI Special Report SR-33 and EBRI Issue Brief no. 190* (Employee Benefit Research Institute, October 1997).
- Ostuw, Pamela. "Access to and Sources of Health Insurance Coverage of the Near Elderly." *EBRI Notes* no. 5 (Employee Benefit Research Institute, May 1997): 1-4.
- \_\_\_\_\_. "Sources of Health Insurance Coverage Among Part-Time Workers." *EBRI Notes*, no. 9 (Employee Benefit Research Institute, September 1997): 5-9.
- Paine, Thomas H. "The Future of Employee Security." *EBRI Notes* no. 5 (Employee Benefit Research Institute, May 1996): 1-4.
- Paul, Robert D. "The Future of Work and the Employer-Employee Relationship." *EBRI Notes* no. 4 (Employee Benefit Research Institute, April 1996): 1-4.
- Rheem, Edina. "Benefits Are a Substantial Component of Total Compensation." *EBRI Notes* no. 12 (Employee Benefit Research Institute, December 1995): 1-4.
- Salisbury, Dallas L. "Employee Benefits in a Flat Tax or Consumption Tax World." *EBRI Notes*, no. 9 (Employee Benefit Research Institute, September 1995): 1-11.
- Salisbury, Dallas L., Ed. *America in Transition: Benefits for the Future*. Washington, DC: Employee Benefit Research Institute, 1987.
- \_\_\_\_\_. *Business, Work, and Benefits: Adjusting to Change*. Washington, DC: Employee Benefit Research Institute, 1989.
- \_\_\_\_\_. *Retirement Prospects in a Defined Contribution World*. Washington, DC: Employee Benefit Research Institute, 1997.
- \_\_\_\_\_. *Tax Reform: Implications for Economic Security and Employee Benefits*. Washington,

## Do Employers/Employees Still Need Employee Benefits?

- DC: Employee Benefit Research Institute, 1997.
- \_\_\_\_\_. *When Workers Call the Shots: Can They Achieve Retirement Security?* Washington, DC: Employee Benefit Research Institute, 1995.
- Salisbury, Dallas L., Ken McDonnell, and Edina Rheem. "The Changing World of Work and Employee Benefits." *EBRI Issue Brief* no. 172 (Employee Benefit Research Institute, April 1996).
- Salisbury, Dallas L., and Nora Super Jones. *Retirement in the 21<sup>st</sup> Century... Ready or Not.* Washington, DC: Employee Benefit Research Institute, 1994.
- Yakoboski, Paul. "Worker Displacement, 1993–1995: Demographics and Implications." *EBRI Issue Brief* no. 186 (Employee Benefit Research Institute, June 1997).
- \_\_\_\_\_. "Tax Reform and the Discipline of Employment-Based Retirement Plans." *EBRI Notes*, no. 5 (Employee Benefit Research Institute, May 1996): 5–7.
- Yakoboski, Paul, and Allen Schiffenbauer. "The Reality of Retirement Today: Lessons in Planning for Tomorrow." *EBRI Issue Brief* no. 181 (Employee Benefit Research Institute, January 1997).

# D

## *List of Policy Forum Attendees*

---

William Arnone  
Ernst & Young LLP

Chris Baylyff  
EBRI

James Bell  
The Mead Corporation

Robert Bell  
The Southern Company

James Bentley  
American Hospital Association

Caroline Berver  
Office of U.S. Senator Bob Graham

Dawn Bizzell  
Pension Benefit Guaranty Corporation

Ron Blackwell (speaker)  
AFL-CIO

Don Blandin  
American Savings Education Council

Francis Bonsignore (speaker)  
Marsh & McLennan Companies, Inc.

Steven Boyce  
Pension Benefit Guaranty Corporation

Bill Carroll  
AT&T

William Chapman, II  
Zurich Kemper Investments Inc.

Maureen Connelly  
AFL-CIO

Christopher Conte  
EBRI Fellow

Craig Copeland  
EBRI

Susan Crown  
Citibank

Mary Ann Czarcinski  
MetLife Insurance Company

Patsy D'Amelio  
EBRI

James Delaplane  
Office of U.S. Representative Earl Pomeroy

Diana Dennett  
American Association of Health Plans

Susan Dentzer  
U.S. News & World Report

Richard Dunn  
General Electric Company

Thomas Eng  
IBM

Gina Falconio  
U.S. Senate Aging Committee

Howard Fluhr  
The Segal Company

Ellie Friend  
EFI Actuaries

Paul Fronstin  
EBRI



## Do Employers/Employees Still Need Employee Benefits?

Dale Gifford (speaker)  
Hewitt Associates

Laurie Goldstein  
MetLife insurance Company

Tracee Gross  
Office of U.S. Representative Earl Pomeroy

Don Harrington  
AT&T

Gary Hart  
Carter-Wallace, Inc.

Jeff Hart  
Swiss Re Life & Health

Russ Hawkins  
AlliedSignal, Inc.

Ron Hovis  
SBC Communications, Inc.

W. B. Howden  
The Southern Company

R. Kenneth Hutchinson  
University of Missouri (HEBRG)

Joanne Inman  
IBM

Paul Jackson  
Consulting Actuary

Bill James  
Pension Benefit Guaranty Corporation

Jeffrey Johnston  
Decision Innovations

Michael Kahn  
National Education Association

Ed Kavjian  
General Motors

James King (speaker)  
Trinity College

James Klein (speaker)  
APPWP—The Benefits Association

Jane Lassner  
J.P. Morgan

Liz Liess  
U. S. Senate Aging Committee

Joseph LoCicero  
Buck Consultants

Michael Losey (speaker)  
Society for Human Resource Management

Michael Mahoney  
Milliman & Robertson

Carl Marinacci  
Amoco Corporation

David Maslen  
Aon Consulting

Anthony Mazzeo  
Bristol-Myers Squibb Company

Peter McCauley  
Pharmacia & Upjohn

John McCormack  
TIAA-CREF

Ken McDonnell  
EBRI

Edward McGann  
Chase Manhattan Bank

Peter McMenamin  
American Medical Association

George O'Donnell  
AT&T Actuarial Sciences Associates

Kelly Olsen  
EBRI

Dale Orred  
United Parcel Service, Inc.

Pamela Ostuw  
EBRI

Joey Parr  
Pacific Maritime Association

Robert Paul  
EBRI Fellow

Joe Piacentini  
Pension & Welfare Benefits Administration

Bill Pierron  
EBRI

Congressman Earl Pomeroy (speaker)  
U.S. House of Representatives

Dick Prey  
The Principal Financial Group

Carol Quick  
EBRI

Kristin Regula  
Health Insurance Association of America

Robert Reischauer (speaker)  
The Brookings Institution

Maureen Richmond  
EBRI/ASEC

Stephanie Robinson  
EBRI

Dallas Salisbury (speaker)  
EBRI

Nancy Saltford  
Professor Emeritus, Cornell University

Bridget Samburg  
Money Management Letter

Tom Schlossberg  
Diversified Investment Advisors

John Seiter  
Capital Guardian Trust Company

Harry Smith  
Retired, Sun Company, Inc.

John Stoma  
Oppenheimer Funds

David Strauss (speaker)  
Pension Benefit Guaranty Corporation

Libby Terry  
Hewitt

Charles Tharp (speaker)  
Bristol-Myers Squibb Company

Jack VanDerhei  
Temple University and EBRI Fellow

John Wade  
National Rural Electric Cooperative Association

Ronald Walker  
William M. Mercer Companies

Howard Weizmann  
Watson Wyatt Worldwide

Elizabeth White  
Reporter, *Pension & Benefits*  
Bureau of National Affairs

Stan Wisniewski  
National Education Association

Paul Yakoboski  
EBRI