

Whither Employer Pensions?

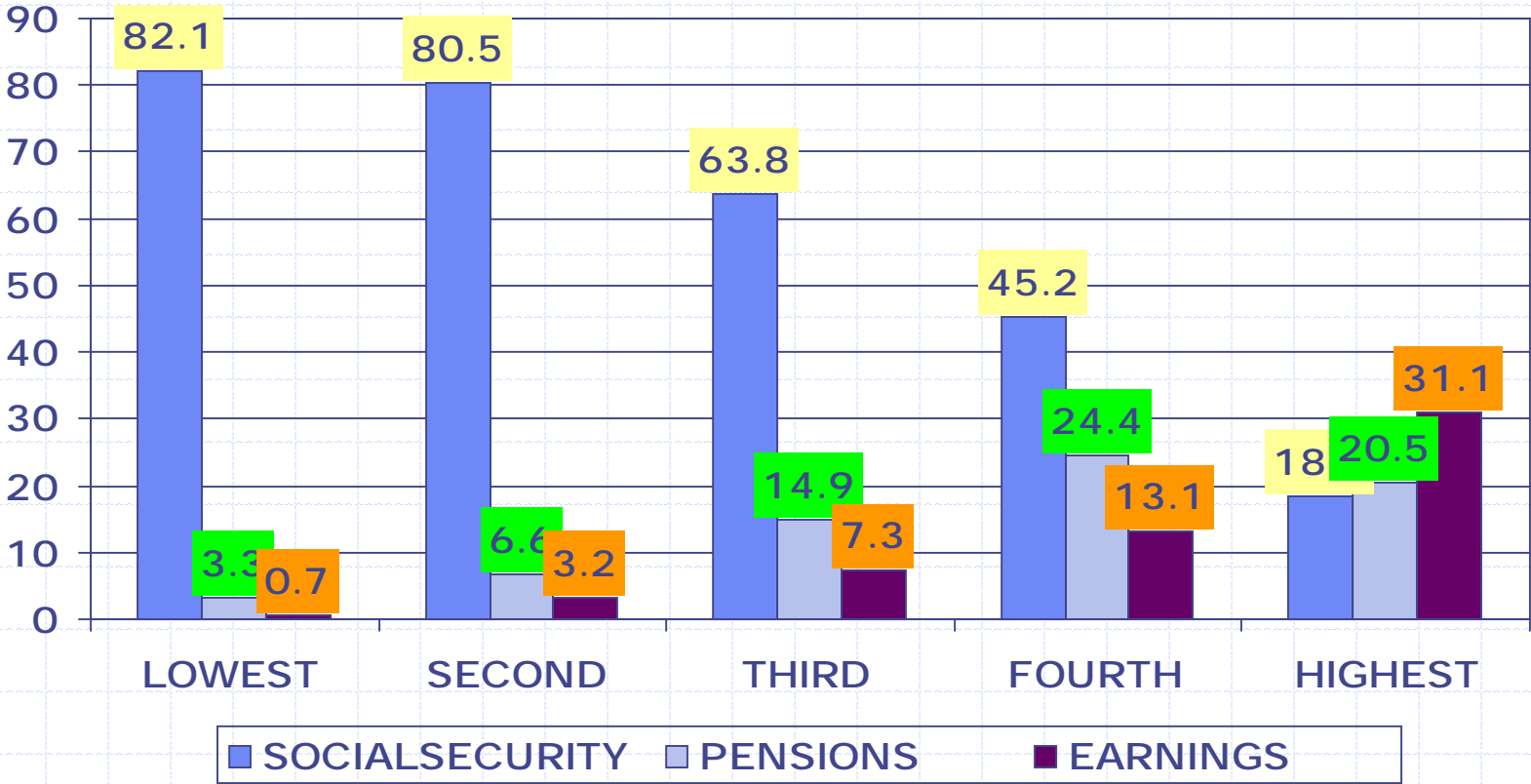
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The Three Legged Stool Only Describes the Sources of Income for the Highest Income Elderly 1998*

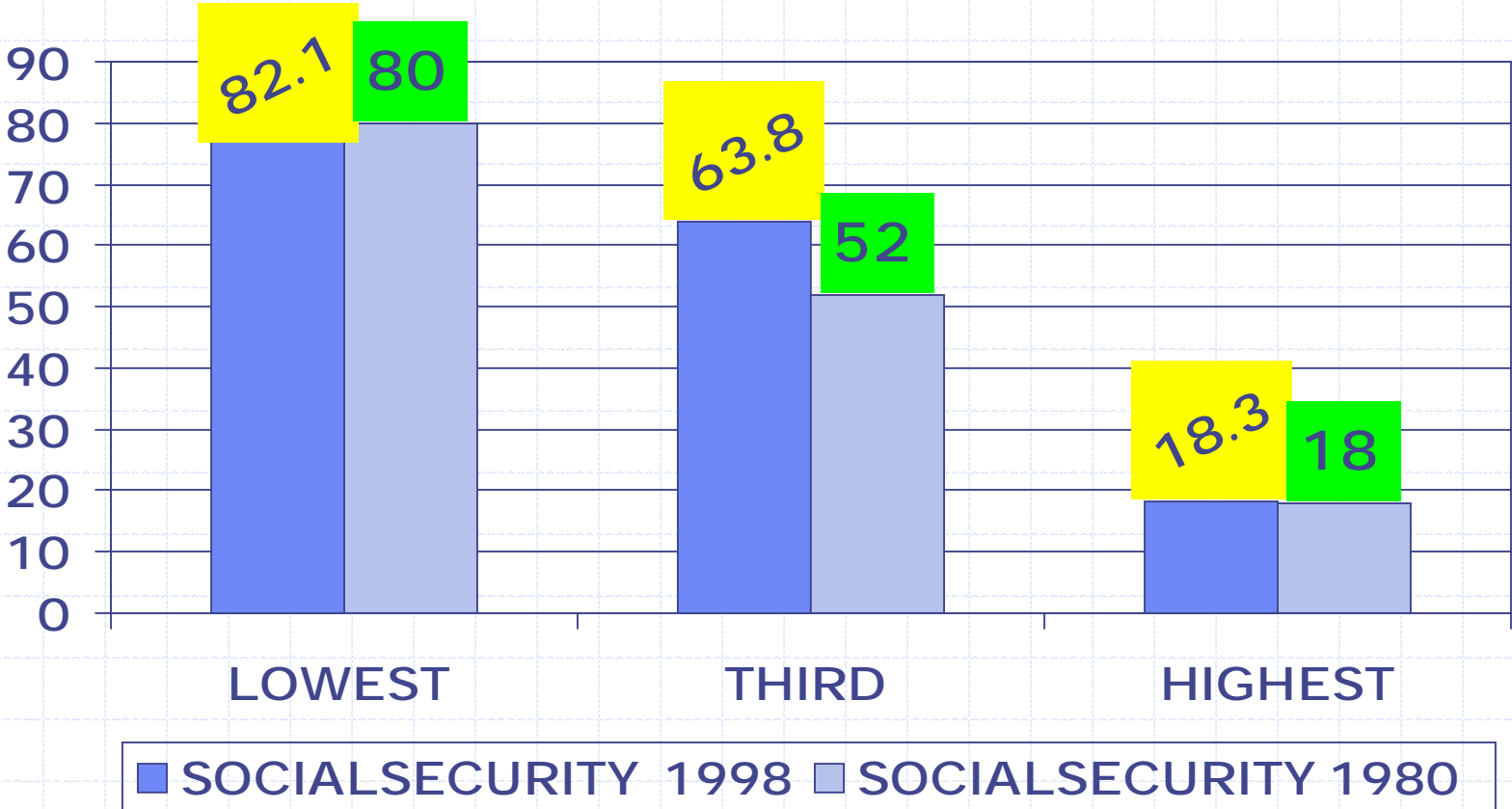
These data refer to the civilian noninstitutional population.
 Source: March Current Population Survey.



Yet, surprisingly, Social Security Has Grown For Every Group - Pensions Stagnant

the elderly 1980 and 1998*
reference population: These data refer to the civilian noninstitutional population.

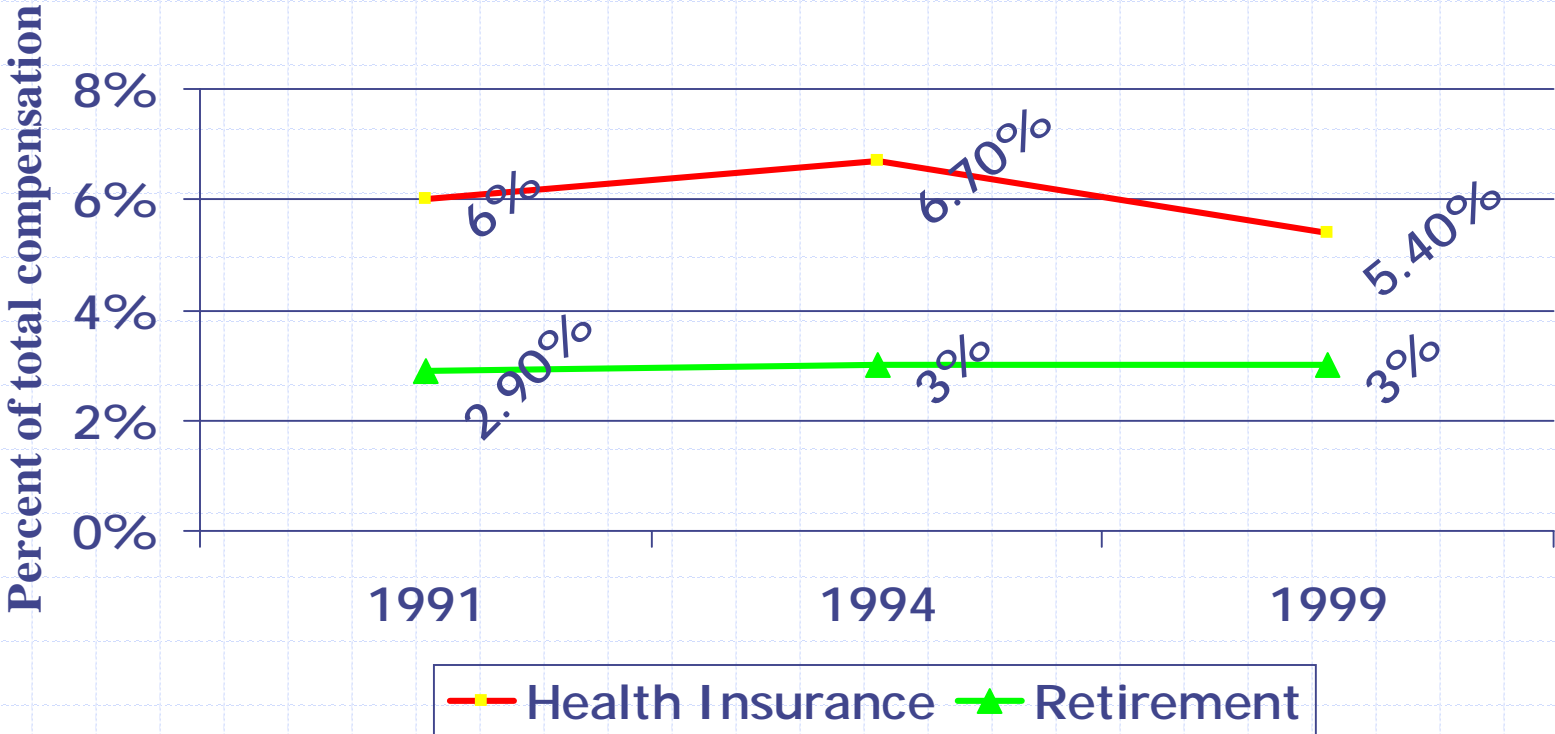
Social Security as a source of income to



Did Social Security Grow in Importance because employee benefits didn't?

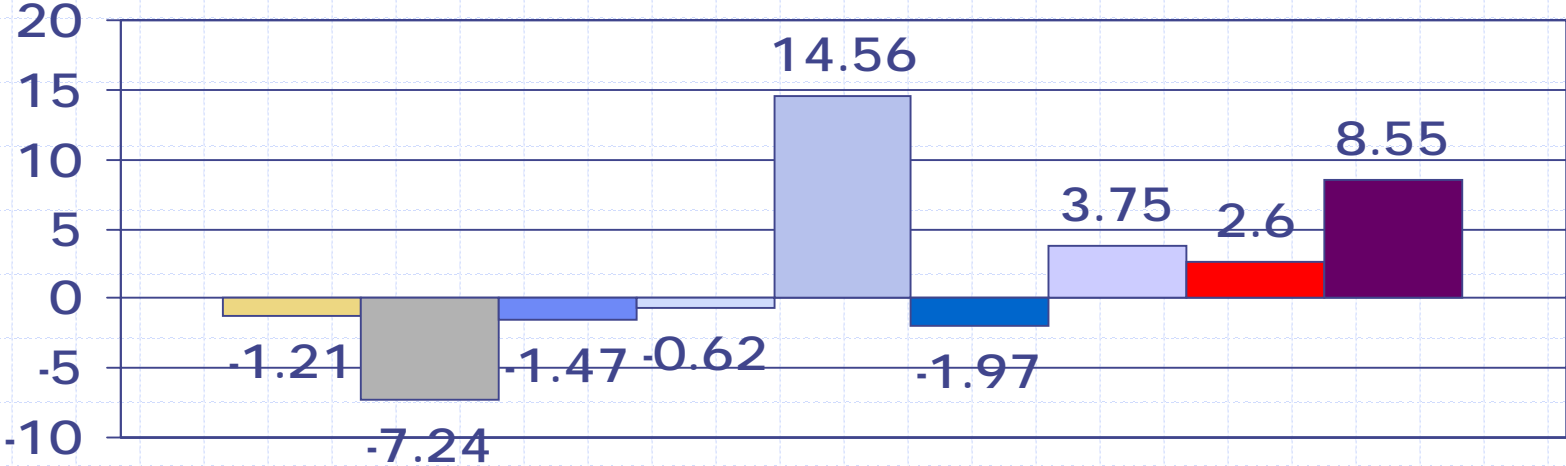
Source: Employer Costs for Employee Compensation, BLS

Percent of Compensation going to Fringes



Moreover, the decline is worse in the largest industries


(INDUSTRIES RANKED BY SIZE (MILLIONS OF EMPLOYEES IN PARENTHESIS)
 Source: ECI 1989-2001 for All Employees



- services (39)
- retail trade (23)
- public ad. (20)
- durable man. (11)
- FIRE (8)
- nondurable (7)
- wholesale trade (7)
- transportation (7)
- construction (7)

The recession exacerbates the erosion of security.

- ◆ Health costs are shifting to workers and employers are dropping coverage;
- ◆ DC returns are falling and the ability to retire is eroding;
- ◆ Moreover, the ability to work after retirement age is eroding too
- ◆ The recession and the half-decade long shift to cash will erode workers' living standards



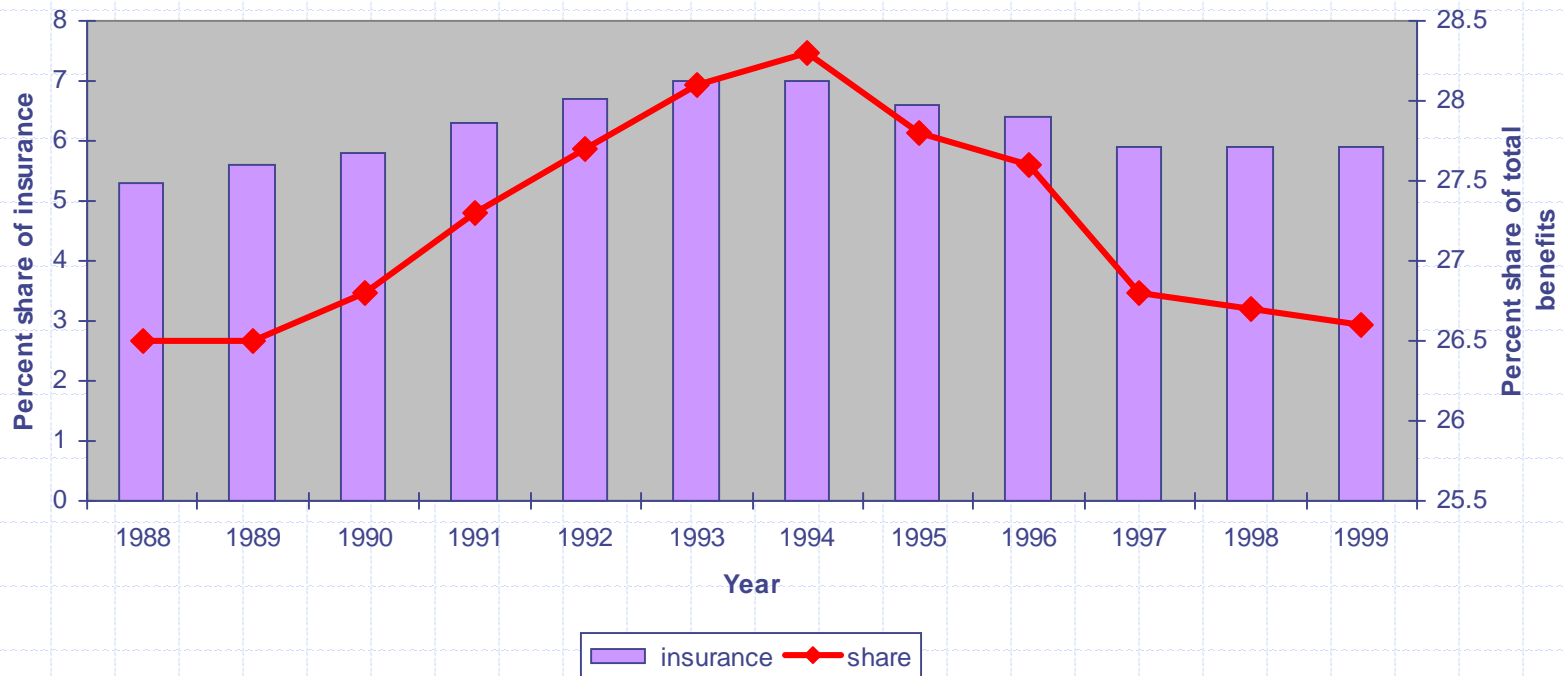
**Why did employers'
commitment) to employee
benefits fall?**

Health insurance costs falling isn't the entire explanation

(health costs have stayed constant while employee benefit share fell)

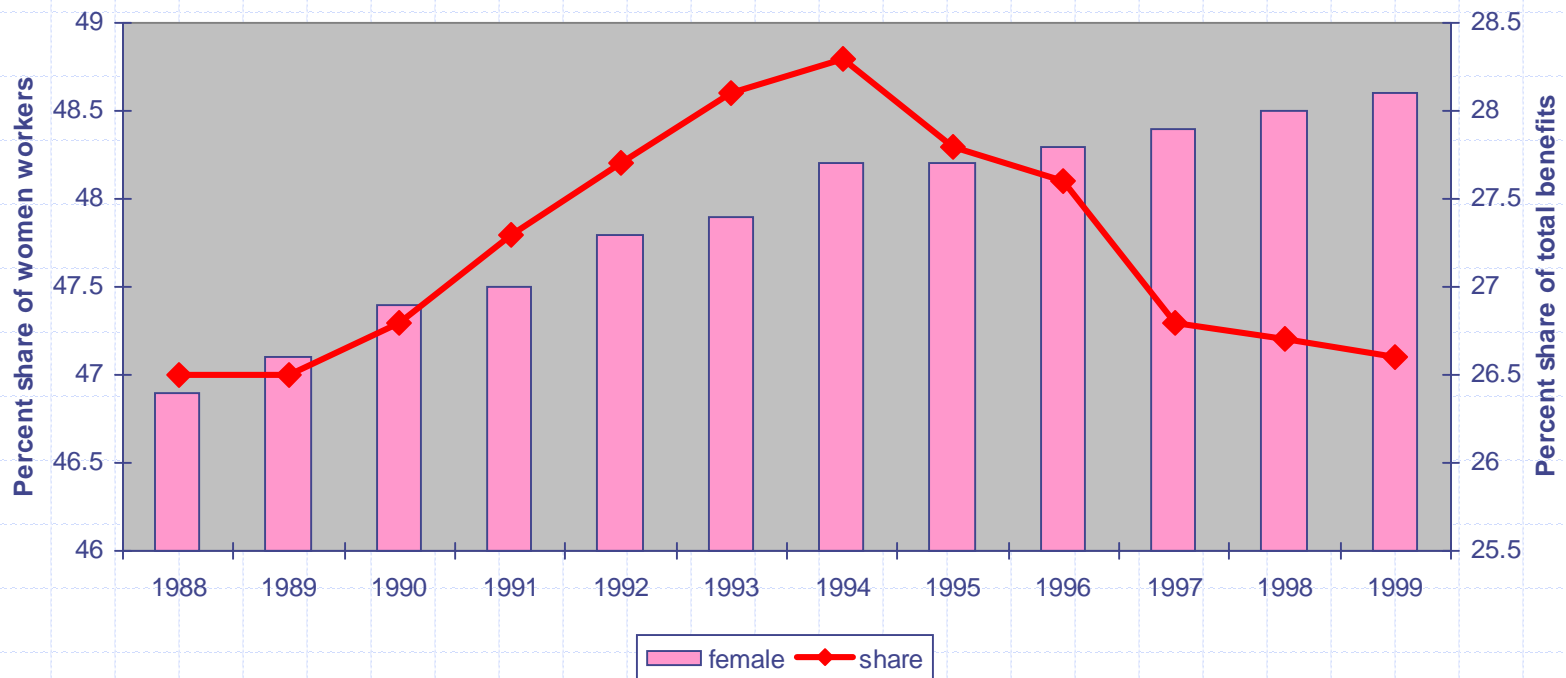
Source: ECI

Percent share of health insurance andn total employee benefits as a percent of total compensation 1988 - 2000



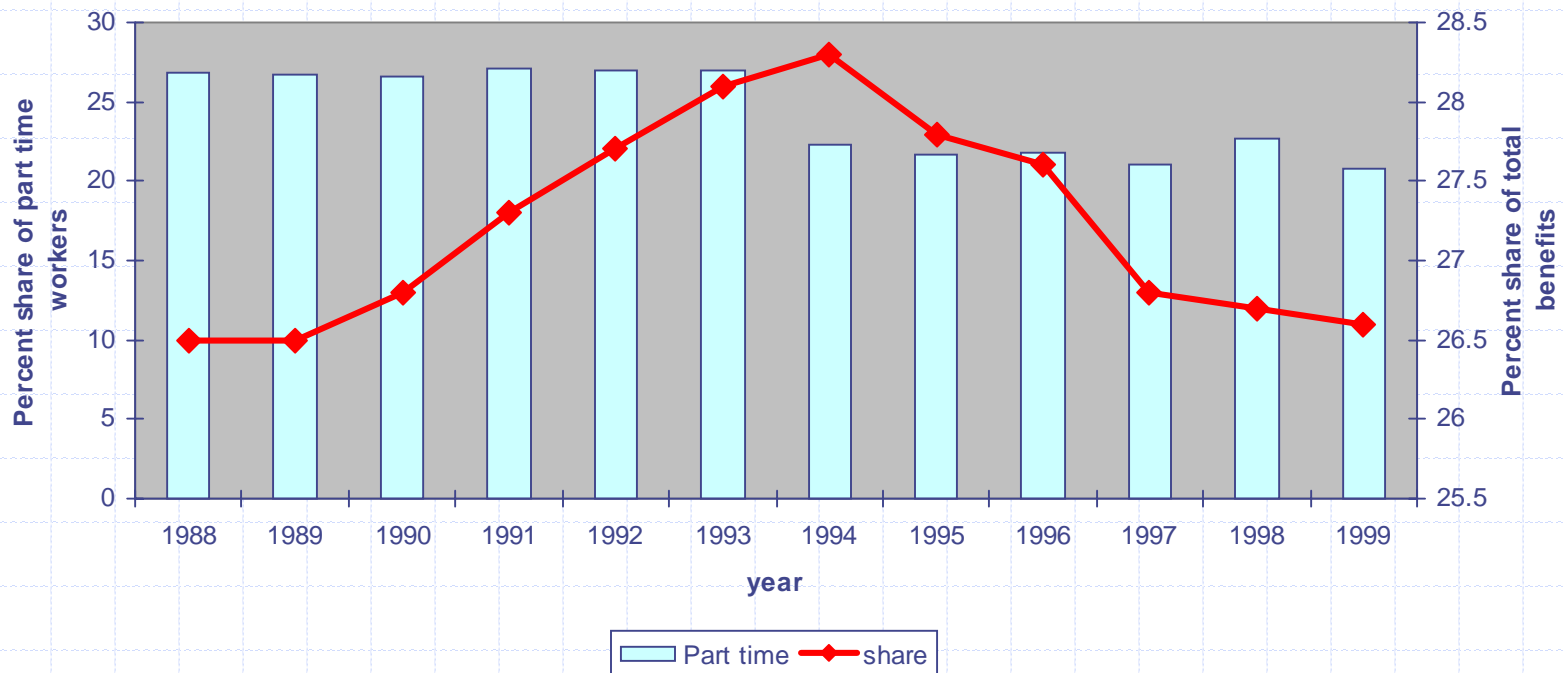
Neither, is more women working explaining the drop in benefits.

Percent share of women workers and total employee benefits as a percent of total compensation 1988 - 2000



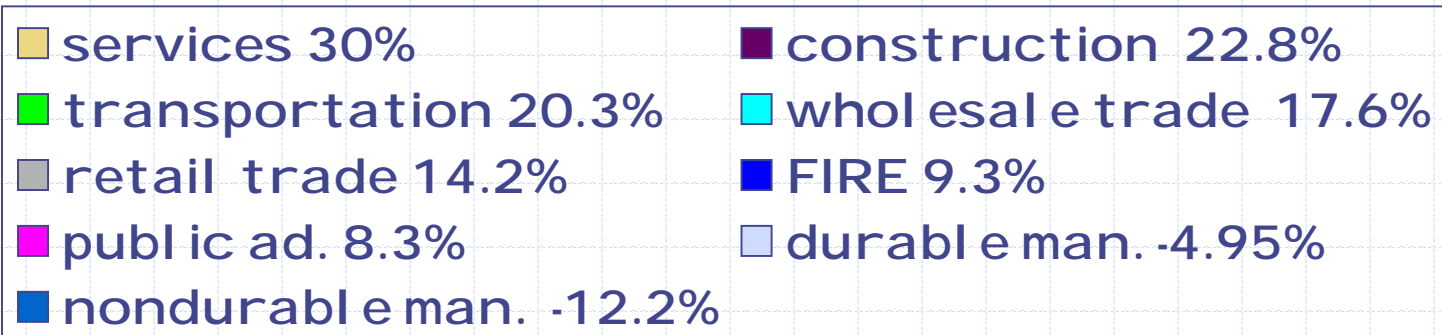
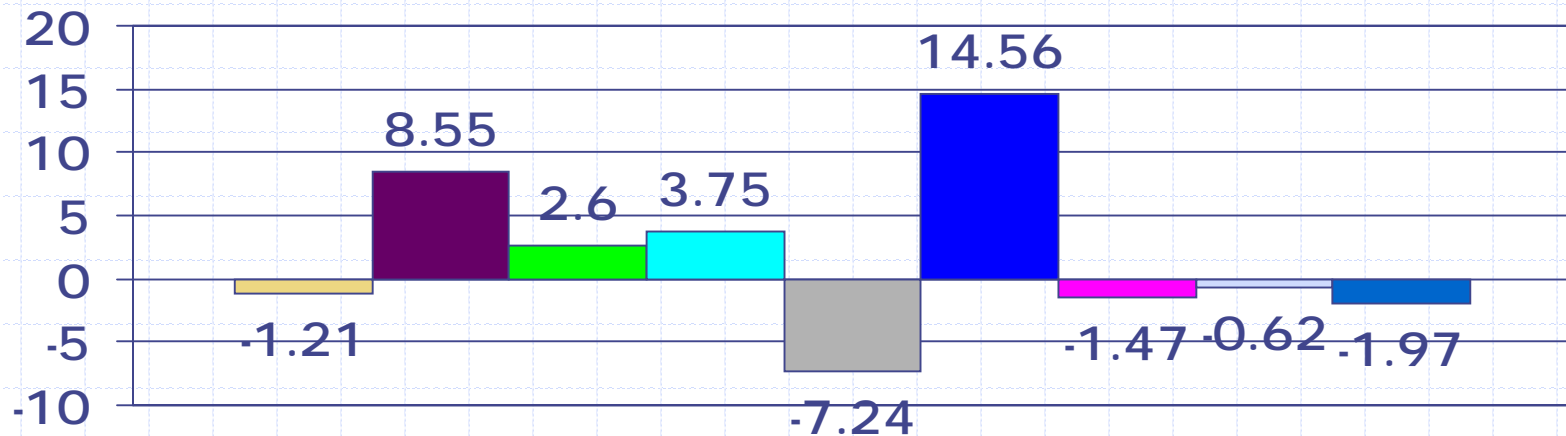
Neither, is the use of part time workers explaining the drop in benefits.

Percent share of part time workers and total employee benefits as a percent of total compensation 1988 - 2000



No Connection Between Benefit Growth and Employment Growth

(INDUSTRIES RANKED BY employment growth) Source: ECI 1989-2001 for All Employees



Traditional economists conclude employers won't provide pensions

if....

- ◆ Workers don't want them. (This means what employers want doesn't matter.)
 - This also means tax breaks matter: (For every 1% drop in the personal tax rate, coverage is seems to fall by .4% (Turner and Reagan, 2000.))

Yet it is hard to believe an aging workforce wants cash over security.

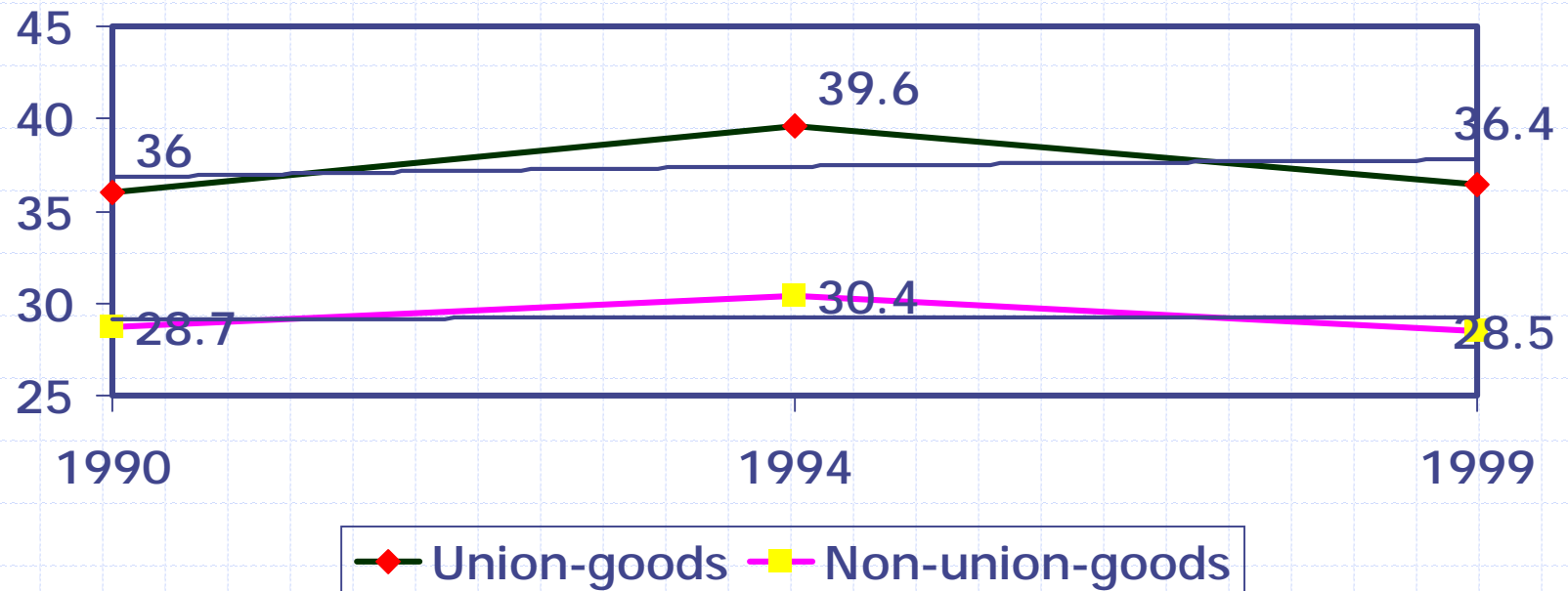
Alternative view: Employers are adopting new employment contracts.

Large employers are choosing an “individual responsibility” model of fringe benefits.

Few small employers provide benefits, though some do when others in the industry do. This is a classic agency problem.

Workers Have Less "Agency" to Promote a Demand for Employee Benefits

Percentage Of Total Compensation Paid In Fringe Benefits



Limitations of the individual responsibility model

- Attractive in “up” markets because of immediate gratification in DC plans but uncertain in down markets
- Attractive when older workers can find jobs easily – the labor market is a source of insurance that waxes and wanes

If the Individual Responsibility Model Can't Deliver Retirement Security then we need.....

- ◆ Government insurance will have to provide basic benefits
- ◆ Multiemployer plans for small employers help solve agency problems
- ◆ Collective bargaining helps create worker demand for fringes (and shelters employers for benefit competition)
- ◆ Education about the need for insurance is needed
- ◆ Employers providing fringe benefits need more rewards -- Paternalism must be praised.