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The Social Compact in the Twenty-First Century

AARP Public Policy Institute

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The Social Compact in the Twenty-First Century

AARP Public Policy Institute

AARP's Public Policy Institute informs and stimulates public debate on the issues we face as we age. Through research, analysis and dialogue with the nation's leading experts, PPI promotes development of sound, creative policies to address our common need for economic security, health care, and quality of life.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

November 2009

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ACKNOWLEDGMENTS

The AARP Public Policy Institute (PPI) wishes to thank the many people who contributed to PPI's thinking, research, and writing on the social compact by providing their perspectives on the nature of the social compact, advice about project design and questionnaires for the surveys described in this report, and reviewing and commenting on various drafts of the report, which was written by Laurel Beedon, John Gist, Jules Lichtenstein, Sara Rix, Shelly-Ann Sinclair, Gerry Smolka, and John Turner. Thanks go to Roselyn Finesod, Karen Friedman, Mathew Greenwald, Dalmer Hoskins, Clare Hushbeck, Robert Hutchens, Sophie Korczyk, Jeff Love, Evelyn Morton, Janet McCubbin, Alicia Munnell, Ellen O'Brien, Marcie Pitt-Catsoupes, Anna Rappaport, Susan Reinhard, Lisa Southworth, and John Williamson for their substantive contributions to this undertaking. The data management and other assistance from Carlos Figueiredo, David Baer, and Kebin Wu of PPI was invaluable. Raissa Figueiredo's proofing and numbers checking at the end were very much appreciated.

PPI is also grateful to the authors of the essays on the social compact that appear in the following pages: John J. Castellani, President, Business Roundtable; William A. Galston, The Brookings Institution; Jacob S. Hacker, Professor of Political Science, Yale University; Sara Horowitz, Executive Director, Working Today-Freelancers Union; Christopher J. McCormick, President and CEO, L.L. Bean Inc.; Steven Pearlstein, business columnist, *Washington Post*; Robert B. Reich, Professor, Goldman School of Public Policy, University of California at Berkeley; Dallas L. Salisbury, CEO, Employee Benefit Research Institute; and Ben Stein, economist, writer, actor, and commentator. Their informative and insightful perspectives on the social compact today add a richness to the survey findings reported herein.

A special note of appreciation goes to Kathi Brown of AARP's Knowledge Management for overseeing the drafting of the survey instruments, working with the vendor, and seeing the interviews through to completion—all with great patience and good humor.

We are grateful for the many contributions made by these experts but cannot, of course, hold them in any way responsible for shortcomings in the report.

EXECUTIVE SUMMARY

The Social Compact in the 21st Century examines perceptions of and changes in what is often referred to as the “social compact” or “social contract”—the reciprocal relationship between employers and employees that for millions of workers has led to a good job that promised security, wages that could support a family, and, at the end of working life, a comfortable retirement with an employer-provided pension to supplement Social Security.

How do workers and their employers understand the so-called social compact and what does that compact mean to them today? Do workers and their employers really believe that such a compact exists? How do these two groups perceive the responsibilities each may have to the other? What do they expect of one another? Whom (or what) do they see as having primary responsibility for such benefits as health care coverage, pensions, and training? How compatible are the respective views of employers and workers?

This report attempts to answer these questions by examining perceptions of the employer-employee relationship in the past, as it currently seems to operate, and as both employers and employees see it evolving in the future. To do that, AARP’s Public Policy Institute commissioned surveys of employees, chief financial officers, and human resource directors in both for-profit companies and nonprofit organizations.

Before discussing the survey, the report takes a look at available data on various components of the social compact and how those components have changed over the past several decades. It focuses on what are arguably the most important employee benefits: public and private pensions and health insurance.

Employers Scale Back Benefits to Workers

Retirement and savings plans, health insurance, and the legally required benefits of Social Security, Medicare, unemployment insurance, and workers’ compensation account for about one-fifth of employer costs for employee compensation. Employers have sought ways to control costs by eliminating, scaling back, or making other changes to the benefits they provide, most notably pensions and health insurance.

The stagnation in private pension coverage since the mid-1970s and the shift from defined benefit (DB) pensions to defined contribution (DC) plans have been well documented. At the same time, there has been a steady unraveling of employer-based health insurance, the primary source of health insurance in the United States. Employers today are also far less likely to offer retiree health benefits than they were just a decade ago. Relatively few employers seem to have plans to eliminate retiree health benefits to current retirees; nonetheless, no currently covered worker or retiree can feel entirely secure about the permanence of those benefits.

The reduction in pension and health benefits, along with increased employee costs for benefits, has consequences for the future as well as the present financial and health security of workers and their families. However, millions of workers have never had access to these or other benefits. For those without or with inadequate employer-provided pension and health benefits, as well as for workers at risk of losing those

benefits as a result of job dislocation, disability, or retirement, a well-developed social safety net is more important than ever.

Employers' and Employees' Views of the Social Compact Are Remarkably Similar

To examine the employer-employee relationship as it is understood by both parties and as it is evolving, workers and employers, who were represented by CFOs and HR directors of U.S. companies with 20 or more employees, were asked their views on the relationships that might comprise a social compact.

Do employers and employees think that a social compact exists? There were definitely shared expectations between the two groups. Employers and workers seemed to agree on certain elements of a social compact, but those had to do mostly with the basics of doing a good job and receiving an adequate salary. The American public, including employers, strongly agrees that employers and employees have certain responsibilities to and expectations of one another, and employers and employees tend to be in agreement about what the expectations are. Employees are expected to do a good job and give an honest day's work, while employers are expected to provide their employees fair compensation and benefits and treat them justly.

To the extent that employers and employees make a connection between those particular expectations and responsibilities and a social compact/contract ("*Recently, some people have talked about the idea of a social contract or compact between employers and workers. Do you agree or disagree that employers and workers in the United States have responsibilities to each other and expectations of each other?*"), one could conclude that most working Americans believe in the existence of a social compact, at least as defined as a vague set of responsibilities and expectations between employers and employees.

A more direct question probed specifically about the social compact toward the end of the survey: *Earlier in this survey, I mentioned that some people say that most employers and most workers have certain responsibilities to each other and expectations of each other. This idea is sometimes expressed in the following way: Workers who work hard and do a good job can expect certain benefits from their employer such as a safe working environment, health insurance, adequate pay, and a more secure retirement. This understanding of the mutual expectations and responsibilities between employers and workers is sometimes referred to as a "social contract" or "social compact." Do you agree or disagree that a **social contract or compact** such as what I just described exists between most employers and most workers in the United States today?*

A majority of workers and two-thirds of the employers agreed at least somewhat that a social compact or contract exists. However, strong agreement was held by a minority—less than one-third of the employers and less than one-fourth of employees.

A Sense of What's Important

One thing that is clear from the study is that both employers and employees had some very definite ideas about the importance of various employee benefits. Employees saw health insurance benefits as the most important benefit that employers can provide. Employers were more divided between health insurance and keeping skills current when it came to identifying the most important benefit. From the employer's

perspective, ensuring that workers' skills are up-to-date is undoubtedly key to remaining competitive (and being able to pay for health insurance and other benefits).

A majority of employees in the study said their employers offered health insurance for workers and families of workers, a pension or retirement savings plan, training opportunities or tuition reimbursement, financial planning information and education, and health education or wellness information. The percentages of employers saying their firms offer these benefits were generally comparable. Firms offering retiree health benefits were a distinct minority.

Evidence of efforts to control benefit costs surfaces in the Social Compact Study. More than half of the employers whose firms offer health insurance, for example, reported that over the past five years, the share of health insurance costs paid by employees has increased. Yet very few had eliminated health benefits for workers.

Benefit termination was, in fact, relatively uncommon, at least among the organizations of the employers and, to a somewhat lesser extent, employees in this study. If a company in the survey did not then offer a benefit, it was unlikely to have done so in the past.

That is not to say that there were no changes to benefits. The shift to 401(k)s and other DC pension plans is one development with worrisome implications that have become only too apparent since the start of the recession in December 2007.

But that shift, it seems, is what workers prefer—or did before the market meltdown. The large majority of employees in this study contended that if they had to choose between a DC plan and a DB plan, they would prefer the DC plan. This applied to older workers as well.

For many workers, some benefits had remained about the same or had actually become more generous over time. Given the rising cost of health care, it comes as no surprise that employees were more likely to report that health benefits (for workers, families, and retirees) had become less generous than to say that about pensions, training, or financial planning information benefits. Nevertheless, some employees reported that the generosity of health insurance benefits offered by their employer had increased since they were first hired.

What the future holds with respect to benefits remains to be seen, but workers should be prepared to assume more responsibility for the benefits they do have. The majority of employers anticipated that workers should expect to take more responsibility for providing health care coverage for themselves, keeping their job skills up-to-date, and ensuring that they will have adequate income in retirement. Very few expected that less responsibility would fall to workers.

One of the more unexpected findings in the study involved the perceptions of who should have the largest role in paying for health insurance. The extent to which government, employers, or workers should play the largest role in paying for a benefit varied by benefit, but when it came to health insurance, both employers and employees overwhelmingly stated that it should be the employer. With the exception of health insurance for retirees, government was seldom seen as having the largest role in paying for the variety of benefits examined

in the study. More than half of employers and employees maintained that the largest role for retiree health benefits belongs to government.

Employers were less likely to see themselves playing a key role in providing pensions than some other benefits, although a number of them had increased the company 401(k) match. Only a minority of the employees in the Social Compact Study were employed by organizations that offered retiree health benefits. Just how many workers will actually receive those benefits is problematic; neither employers nor workers saw them as a responsibility of the employer but rather of the federal government. Employers predicted that workers themselves will be shouldering more responsibility for other benefits in coming years.

Although the Social Compact Study does not enable us to draw conclusions about the precise meaning of the social compact to either employers or employees, a key finding of the study is that employers and employees were in close accord when it comes to feelings about responsibilities to and expectations of each other. Both believed that there should be shared responsibility for ensuring health and retirement security.

A Look to the Future

In a global economy characterized by rapid technological change, shifting markets, and growing competition from abroad, employers and workers face an uncertain future. Both need to be flexible and adaptable to respond to changing market conditions. Many employers are unable to guarantee jobs that will last for a lifetime—or for very long at all—which increases the vulnerability of workers who need to maintain skills that will keep them marketable. Workers must also be protected against the inclination to put off saving and investing and must be better educated about their choices and the decisions they must make. Lifelong commitment in the form of health and pension benefits through retirement is something that relatively few workers can expect in the future.

What public and private sector policies can be designed or strengthened to help workers more effectively deal with economic insecurity across the life cycle? Workers and their families cannot address economic insecurity entirely on their own. To move forward, it will be necessary to find ways to maintain and strengthen the private-public safety net; to assure a basic set of protections for everyone; and, at the same time, to improve opportunities for individuals, families, and employers to build on that foundation. To that end, we offer a series of recommendations for a minimum set of protections to help workers and retirees save for a secure retirement, gain access to stable and affordable health insurance, and obtain the training and skills they need to succeed in an increasingly competitive and fluid job market.

Social Security

If research on the social compact highlights anything, it is the continued importance of Social Security in promoting income security in the United States. Social Security is and will likely remain the mainstay of retirement-income support for most Americans. Given stagnation in private pension coverage, the shift from DB to DC plans, and a general lack of savings on the part of the American public, it is critical that Social Security be maintained as a stable DB program that provides guaranteed benefits for life to all who have contributed to the system and meet the qualifications for benefits. Adjustments to the program must be made to restore its long-term solvency. Any solvency package should maintain a progressive benefit formula that

replaces a greater share of the earnings of low-wage workers than higher-wage workers and should continue full, annual cost-of-living adjustments that enable benefits to keep pace with inflation.

Employer-Provided Pensions or Retirement Savings Vehicles

Efforts to restore the DB system are unlikely to bear fruit. Still, there are other ways for employers to play a greater role in increasing access to pensions and savings plans and retain the flexibility they need to ensure that their businesses remain competitive in the global economy. Employers could

- ▶ Offer all workers a way to save through payroll deductions;
- ▶ Provide automatic enrollment in 401(k) plans;
- ▶ Provide automatic rebalancing of employee 401(k) accumulations;
- ▶ Offer employees the option of automatically saving all or a portion of future raises;
- ▶ Include life-cycle funds (where employees identify when they expect to retire and the fund's investments are based on the time horizon) in their retirement savings plans, perhaps as the default option;
- ▶ Offer access to annuities;
- ▶ Educate their employees about the consequences of various financial and other (e.g., retirement) decisions; and
- ▶ Provide retirement planning.

Access to Health Care

How best to provide health care to the millions of uninsured Americans while maintaining adequate coverage for those with employer-provided health insurance or enrolled in publicly funded programs such as Medicare is beyond the scope of this report and, in fact, was the subject of vigorous public debate as this report was being completed. Options in AARP's *Building a Sustainable Future: A Framework for Financial and Health Security* include maximizing enrollment in and strengthening public programs and encouraging public/private initiatives to expand access to affordable coverage while attempting to control costs.¹

Employers can also provide health and wellness programs along with access to health education to help their workers adopt and maintain healthy life styles and make wise decisions about health care. In fact, all employers *should* do this, in part to help contain their own health care costs, lower absenteeism due to illness, and enhance performance. Most employers, at least those with 20 or more employees, continue to feel that they have a substantial role to play when it comes to employee health insurance, even if they have been increasing the cost to employees and see more of the cost burden being shifted to workers.

Longer Work Lives, Better Jobs

In a changing, global economy, workers must be flexible, adaptable, and prepared for change. Few entry-level workers will be able to count on remaining with a single employer for a lifetime. Even middle-aged and older workers must be prepared for job changes—voluntarily in the case of many midlife job or career changes or postretirement bridge jobs, or involuntarily as a result of job displacement, company restructuring, or the inability to continue doing the same type of work.

In the face of advancing technology and more cognitively complex jobs, workers who want to remain employed must have the ability to acquire new skills repeatedly over their working years. Because workers of the future are likely to be more job mobile than those of the past—and because employers will increasingly need continuously updated skills—workers must keep their skills honed to remain employable. Making this happen is a shared responsibility. Workers must seek out and take advantage of training opportunities, particularly those offered by their employers. Employers should also periodically assess the skills of their workers in light of technological change and labor market developments and ensure that workers of all ages have access to training (preferably through on-the-job training or tuition assistance) that keeps them technologically up-to-date and marketable.

There is little evidence that America's workforce development system is up to meeting the changing needs of a very diverse population of workers and potential workers in the twenty-first century. Because workers have had to assume more of the risks of ensuring their own financial security—or are paying more for that security—they are going to have to work longer and/or harder at better jobs, if possible. Just how best to promote access to worker training—at an affordable cost—needs further study and promising demonstration programs. However, improving the skills of America's workers and keeping them up-to-date must be a top priority in any reconceptualization of the social compact.

1

Introduction

*More Companies Ending Promises for Retirement (New York Times)*²
*Employers Chip Away at Retiree Health Benefits (Los Angeles Times)*³
*Big US Companies Shift from Traditional Pensions (Reuters)*⁴
*More Firms Dropping Pensions (Seattle Times)*⁵

THE SOCIAL COMPACT IN AMERICAN LIFE

A good job promising security, wages that can support a family, health insurance, and, at the end, a comfortable retirement with an employer-provided pension to supplement Social Security—that has been a big part of the American dream. Television viewers in the 1950s and 1960s could see that dream epitomized in such programs as *Father Knows Best*, *Ozzie and Harriet*, and *Leave It to Beaver*. These shows depicted a world in which parents did not have to worry about steady paychecks, affordable health care, or a penniless old age. Dad could leave those concerns to his typically off-camera employer and, at the end of a presumably full day’s work, return home to deal with the messes his children had gotten into. The fact that many real-world dads could do the same was the result of expectations they and their employers held in common—often referred to as the “social compact” or “social contract.”

In the view of many, the employer-employee relationship has, at least until recently, encompassed expectations and obligations generally understood and accepted by both parties to the relationship. Employees were expected to report to their jobs on time, work hard, and demonstrate loyalty to their employers. In return, employers compensated their loyal, hardworking employees with decent wages and secure jobs that workers could depend on until retirement. Employers also bore the economic risk of providing benefits, such as pensions and health insurance, which became the norm for many millions of workers and which promised financial security during and after the working years. These benefits were offered in lieu of current wages as a way to keep a stable workforce and promote loyalty. When a company’s profits increased, it was expected that some of those profits would be shared with the workers who, after all, helped make them possible.

Government has also been a party to the compact. It has played a prominent role in providing a safety net to protect workers and their families from earnings losses due to retirement or events over which they have relatively little control (e.g., unemployment, on-the-job accidents, disability, and retirement), and by redistributing income, alleviating poverty, and compensating for the differing

work patterns and caregiving responsibilities of men and women. Undergirding this public compact has been a general willingness on the part of Americans to provide such support, particularly through payroll taxes, in the expectation that they would be provided for in turn.

John Cornman and Eric R. Kingson argue that the social compact “is based on the reciprocal ties that hold families, governance, and society together.”⁶ Its “essential provisions,” maintains former Secretary of Labor Robert Reich, “were taken for granted by American society.”⁷ But if the headlines at the beginning of this chapter are any indication, the compact is eroding and the American dream is becoming harder to achieve. Even financially healthy companies have laid off employees, not out of immediate financial necessity but rather out of a “lean and mean” operating philosophy⁸ and the desire to remain globally competitive by paying lower wages and fewer benefits.

For many, of course, the American dream has always been elusive. Millions of workers have found themselves in low-wage, low-benefit, unstable jobs that promise little financial security. These workers have often faced the threat of job loss and have lacked employer-provided benefits to tide them over when they were sick or otherwise unable to work. For these workers, the safety net components of the public social compact—in particular, unemployment insurance, disability insurance, Social Security retired worker benefits, and Medicare—have offered a floor of income protection and security that they have not gotten from their employers.

Ben Bernanke, currently chairman of the Federal Reserve Board, has observed that “the American economy has always been much more dynamic than [the] placid depiction” of life on *Leave It to Beaver* would suggest.⁹ Workers have always faced job insecurity, unemployment, and technological obsolescence. According to Bernanke, the “*Beaver*

model of economic security is increasingly less viable in today’s world,” which is characterized by changes in the historic patterns of trade and production, an acceleration in technological advances, and globalization. These developments, coupled with the weakening of U.S. labor unions, have contributed to substantial changes in what employers offer and promise, the sense of responsibility they feel toward their employees, and the risks they are willing or able to bear. They also have implications for the public social compact.

For consistency and to avoid confusion, the term “public (or government) social compact” or “public compact” is used when referring to the three-way relationship between government, workers, and employers, even though employers are required by law to contribute to Social Security and pay for unemployment insurance and workers’ compensation.

SOCIAL COMPACT OR SOCIAL CONTRACT?

Use of the phrase “social contract” is common, particularly in discussions of Social Security and Medicare. A compact, however, lacks the legal standing that a contract has.¹⁰ Because employers are not legally required to offer or to continue providing most of the benefits highlighted here, this report uses the phrase “social compact” rather than “social contract.”

WHAT IS THE SOCIAL COMPACT IN THE TWENTY-FIRST CENTURY ALL ABOUT?

The employer-employee relationship and perspectives on it seem to be changing. This report looks at how workers and their employers understand the so-called social compact and what that compact means to them. Do workers and their employers

My View

John J. Castellani

President, Business Roundtable

The unchallenged worldwide dominance historically enjoyed by U.S. companies has been replaced by a worldwide economy in which the playing field is far more level. Now our nation must compete fiercely with many others for natural resources, financial capital, jobs, and consumer markets.

The U.S. economy has benefited greatly from this rapid pace of change over the past few years—but that pace will only increase, and we must be ready to compete and win in our new worldwide economy.

This requires new approaches and new roles. For example:

Our workforce must be flexible and adaptable.

In competing with the world—and keeping up with technological changes—the United States loses 15 million jobs in a typical year, but gains 17 million new jobs. Thus, young American workers can expect to change jobs six or seven times during their lifetime and will likely need new skills for each one.

We must acknowledge our increasingly mobile workforce by adapting retirement and health care benefits to become more flexible and portable. For instance, 401(k) plans and health savings accounts are employee-owned, portable benefits that workers can take from one workplace to the next with continuous coverage.

And lifetime learning has never been more vital. Updating job skills will take a renewed commitment to improving our schools, expanding science and math education, and providing job retraining. And workers must also take advantage of every learning opportunity and work closely with managers to develop their skills.

Businesses must continue their stewardship.

As the worldwide economy has evolved, borders between the world's nations have become more fluid, and the relationship between communities and companies is becoming more closely intertwined. Consequently, it is imperative for companies to demonstrate that they are responsible members of the global community.

For instance, in 2005, the members of Business Roundtable—160 CEOs of America's leading companies—launched a major initiative, S.E.E. Change, to harness market forces to improve our stewardship of society and the environment with sustainable business practices. Our goals are simple: Do more with less, using energy and raw materials more efficiently. And improve the quality of life with new products and technologies that create value for society.

Our companies have also been working hard to foster public confidence in business by operating more transparently and responsibly for all stakeholders. We must be active, conscientious members of our communities, both here and overseas.

Our public policies must foster competitiveness.

Maintaining America's leadership in the worldwide economy—so our workers can continue to lead—also calls for lawmakers to enact policies that promote new investment, open global markets, accelerate productivity, and foster disciplined government spending.

At the heart of these policies must be a consensus that we are all in this together—business, labor, government, educators, retirees, and the rest of the American public. Our nation was a grand experiment when it formed over two centuries ago and has remained agile while adapting to historic change. That will remain our greatest strength as we face our rapidly evolving future together.

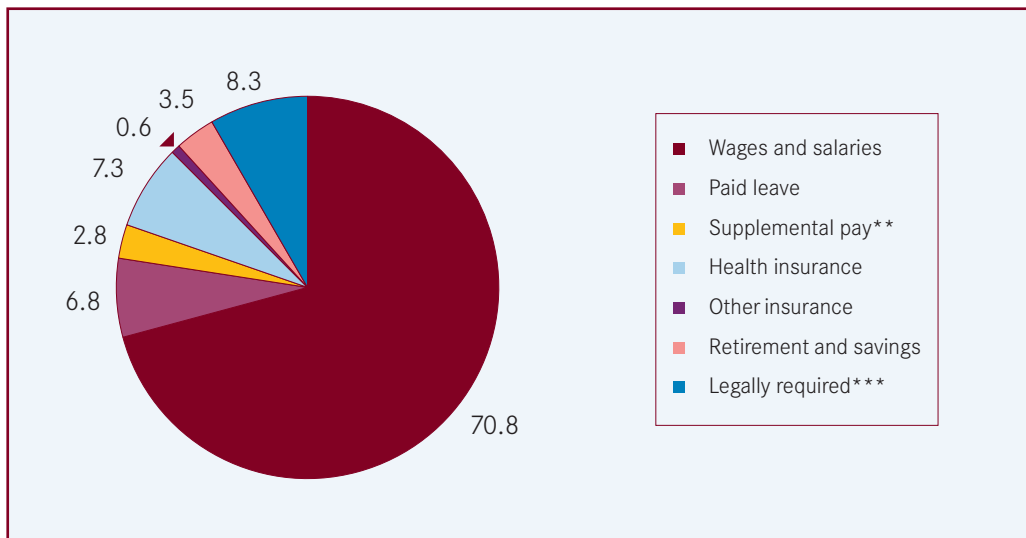
really believe that such a compact exists? How do these two groups perceive any responsibilities each may have to the other? What do they expect of one another? Whom (or what) do they see as having primary responsibility for such benefits as health care coverage, pensions, and training? How compatible are the respective views of employers and workers?

This report attempts to answer these questions by examining perceptions of the employer-employee relationship in the past, as it currently seems to operate, and as both employers and employees see it evolving in the future. To do that, AARP's Public Policy Institute commissioned surveys of employees, chief financial officers, and human resource directors in both for-profit companies and nonprofit organizations.

Chapter 2 of the report provides a backdrop for the discussion of the survey findings by looking at components of the social compact and how they have changed over the past several decades. It focuses on what are arguably the most important employee benefits: public and private pensions and health insurance. Retirement and savings, health insurance, and the legally required benefits of Social Security, Medicare, unemployment insurance, and workers' compensation account for about one-fifth of employer costs for employee compensation (figure 1-1).

To be sure, workers care about other benefits such as paid vacations, sick leave, and life insurance, and those benefits may contribute greatly to what workers like or dislike about their jobs. However, the current

Figure 1-1. Employer Costs for Employee Compensation,* March 2009



*Employer costs per hour worked as a percent of total compensation, private industry workers.

**Supplemental pay includes overtime and premium pay, shift differentials pay, and nonproduction bonuses.

***Social Security, Medicare, unemployment insurance, workers' compensation.

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation—March 2009*, USDL: 09-0634, June 10, 2009, table 5.

and future economic security of workers depends largely on pensions and health insurance, which are the benefits that seem to have undergone the most substantial changes in recent years because they are far and away the most expensive.

Chapter 3 highlights some of the results of AARP surveys of employers—specifically, chief financial officers (CFOs) and human resource (HR) directors—and employees, undertaken to aid in understanding how employers and employees perceive the social compact and what they regard as important when it comes to wages and benefits.

Chapter 4 concludes with a variety of options designed to promote financial security in a global

economy characterized by rapid technological change, shifting markets, and growing competition from abroad, and where both employers and workers face an increasingly uncertain future.

Brief perspectives on the social compact, both private and public, held by a number of America's opinion leaders and thinkers on this subject appear throughout the report. Commentators were asked for their assessment of the social compact in the United States and where it might or should be headed. The inclusion of their commentaries in this report does not imply their endorsement of AARP's policies; nor does it imply AARP's endorsement of the commentators' perspectives.

My View

William A. Galston

The Brookings Institution

In the five decades after FDR's election to the presidency, the United States built its own distinctive social contract. It rested on three pillars—steadily expanding social insurance programs, a leading role for the private sector in pensions and health insurance, and high personal savings rates.

Every element of this social contract is now under intense pressure. The *public sector* faces a structural budget deficit as far as the eye can see. The long-term actuarial imbalance in Social Security is on the order of 25 to 30 percent and increases with every year of inaction. Medicare and Medicaid are on course to triple as a share of gross domestic product (GDP) over the next quarter century and, if not restructured, will consume nearly 12 percent of GDP by 2032. At the state and local level, unfunded liabilities for future retiree pensions and health care are estimated to be as high as \$1 trillion.

Meanwhile, the *private sector* is steadily retreating from the provision of pensions and health insurance. In place of pensions, most workers now have defined contribution plans in which they, rather than their firms, bear the risks of future economic performance. Annual premiums for health insurance have risen by 87 percent since the beginning of this decade—more than four times as fast as workers' earnings—pricing many out of the market and swelling the ranks of the uninsured.

Finally, *individuals* are increasingly unwilling or unable to do their part in providing security for themselves. The personal savings rate, in double digits through much of the 1960s and 1970s, averaged 8 percent between 1980 and 1994 and then began a steep decline.

We must begin the difficult task of reconciling basic moral commitments with stubborn realities to construct a new social contract. The alternative to a new contract is *no* contract—a society in which the strong take what they can, and the weak endure what they must.

The core of the twenty-first century social contract is a new set of norms reallocating responsibility for personal security. To the greatest extent possible, *individuals and families* will be expected to take the lead in providing for their own futures through personal savings and the purchase of insurance against low-probability, high-cost events. In return for bearing less direct responsibility for pensions and health insurance, however, the *private sector* will be called upon to contribute an increasing share of the revenues the public sector will need to subsidize security-enhancing programs. *Government* will be called upon to do collectively what we cannot do for ourselves as individuals, including shaping competitive markets for social ends and acting as insurer of last resort against disruptive events that overwhelm individual capacities and resources.

No single political party can engineer such a profound shift. Creating a new social contract will require a grand bargain between left and right. The left will have to acknowledge that individuals must assume greater responsibility for their own security and that the public sector cannot afford to discharge its core responsibilities without structural changes in current programs. For its part, the right will have to acknowledge that individuals cannot be expected to bear the burdens of health insurance and retirement without substantial public sector involvement; that 20 percent of GDP is not a feasible limit for the size of the federal government in coming generations; and that whatever size we agree government should reach over the next generation, we must pay for it.

2

A Golden Age of Worker Benefits and Job Security: Myth or Reality?

A LOOK BACK AT THE SOCIAL COMPACT

A social compact between workers and their employers is assumed by many to have existed during the post-World War II period in American history. The compact is variously described as an implicit understanding that workers would work hard and employers would see that their employees had protection for themselves and their families against risks such as illness or economic fluctuations. Who originated the notion of a social compact as a “deal” between workers and employers is not clear, but the term derives from the writings of 17th and 18th century philosophers, particularly John Locke and Jean-Jacques Rousseau. Although their philosophies differed sharply, both were concerned with citizens’ relationships with *government*, and their philosophies were premised on the primacy of individuals, whose consent was critical to forming a government. It was a relationship of equals (citizens) to each other.

In our own time, the notion of a social contract or compact came to be applied to economic relationships between employers and workers,¹¹ often mediated by government. The social compact between workers and their employers is very different from the original meaning of social contract. Today’s social compact is based on economic exchange, one where the power relationships are not equal. Employers and workers need each other, but far greater leverage rests on the side of the employer. To some extent the government participates as a party to the relationship, usually in areas where the market has failed to provide workers adequate protection against some type of risk—be it the risk of inadequate income in retirement in the case of Social Security, the risk of ill health in the case of Medicare, or the risk of job loss in the case of unemployment compensation.

Growing job insecurity¹² and changes in employers’ pension and health insurance offerings—what employers provide and to whom—suggest declining commitment of employers to workers over the past three decades. The shift from traditional defined benefit pensions with their guaranteed retirement income toward defined contribution plans, and the ongoing efforts of employers—faced with rapidly rising costs—to contain their own health care spending, have shifted costs and risks to workers.

This chapter highlights some of the more important trends affecting employers and workers in recent decades; it does not aim to provide a comprehensive

assessment of how work and its guarantees have changed and what those changes mean for economic well-being. A brief assessment of how employment relationships have changed nonetheless provides both a necessary backdrop for the chapter 3 discussion of workers' and employers' perceptions of these new realities and a useful starting point for thinking about how policies to enhance the economic security of workers, retirees, and families can and should be crafted.

PENSIONS: GROWING RISKS FOR ECONOMIC WELL-BEING IN OLD AGE

Private pensions have been variously described as one of the three legs of the retirement-income stool (Social Security, pensions, savings) or, along with savings, as one of the four pillars of retirement income security (Social Security, pensions/retirement savings, earnings, health insurance).¹³ Pensions are an important supplement to Social Security for retirees who have been fortunate to work long enough in jobs that offer coverage to qualify for benefits. However, retirees with pensions have always been in the minority—only about one-third of Social Security beneficiaries ages 65 and older had income from private pensions or annuities as of 2004.¹⁴ In 1984, just over one-fourth of Social Security beneficiaries ages 65 and older had private pension or annuity income.¹⁵ The more recent figure obviously represents an increase over the past 20 years, but perhaps not as large an increase as some might have assumed, given that formal private pensions have been in existence in the United States for more than 125 years.

The Early Years

The nation's first formal private pension plan was started in 1875 by the American Express Company, then a small freight company. Twenty-five years later the Pennsylvania Railroad established an innovative pension that covered all workers, with no employee

contribution required. This plan became the model defined benefit (DB) plan for the rest of the century.¹⁶

The Post-World War II Years

Pension participation increased dramatically after World War II, reaching 45 percent of the private sector workforce by 1970,¹⁷ after which it leveled off.¹⁸ The rapid growth of private pensions in the 1950s and 1960s was partially the result of special tax incentives to promote pensions, as well as the use of fringe benefits by employers to avoid periodic government wage controls.¹⁹ The vast majority of these plans were DB pensions, where benefits are calculated according to a formula based on wages and years of service and generally paid out in the form of a life annuity with periodic payments made until the beneficiary dies.²⁰ DC plans, where benefits at retirement depend on the contributions to individual accounts and earnings of the investments in those accounts, covered a small percentage of the workforce at this time.

The major shortcoming of the pension system during this period was that participation did not necessarily translate into pension benefits. There were few federal standards of operation for private employee benefit plans and no comprehensive benefit insurance. Vesting standards were weak, and employers could modify, reduce, or eliminate pensions as they saw fit. Thus, despite expanding coverage, the U.S. pension system in the first few decades after World War II provided workers with limited claims to benefits.

Employers used vesting policies to limit their pension liabilities. (Vesting is the nonforfeitable right to accrued pension benefits; vesting periods of 20 or more years were not uncommon.) Furthermore, employers could choose to offer benefits only to certain groups of workers,²¹ leaving other workers with similar retirement income needs without pension coverage. In 1963, the Internal Revenue Service (IRS) made a company's vesting of workers a prerequisite for special tax treatment for single-

DEFINED BENEFIT, DEFINED CONTRIBUTION, AND CASH BALANCE PENSION PLANS

A defined benefit, or traditional, pension plan is a federally insured plan with automatic enrollment that is funded by the employer (although some plans require employee contributions) and that pays benefits based on a worker's salary and the number of years with the company. Under this type of plan, a retiree receives a guaranteed dollar amount that is generally paid in the form of a lifetime annuity, although lump-sum distributions have become common.

A defined contribution pension plan involves individual retirement savings accounts for employees. Generally, a fixed percentage of a worker's salary is contributed to the account. In some plans only employees contribute, and in others only employers do. In still others, such as 401(k) plans, employers may match the contributions of their employees. With a defined contribution plan, the amount received at retirement depends on how much has been contributed to an account and how the investments have grown over time. Lump-sum distributions are more common than annuities.

A cash balance pension plan is legally a defined benefit plan, but it has features of both defined benefit and defined contribution plans. A cash balance plan is federally insured with automatic enrollment and establishes a hypothetical or "notional" individual account for employees. This type of plan pays a benefit at retirement that is largely based on compensation over the years of plan participation. The payout may be in the form of an annuity or a lump-sum distribution.

employer plans (but exempted collectively bargained plans); vesting of shorter-tenured workers would be required to avoid a discriminatory distribution in favor of managers and long-service workers.²²

As pensions matured, increasing numbers of participants began to reach retirement age with significant but insufficient years of service to qualify for a pension. Moreover, workers could be denied a pension for something as seemingly inconsequential as a shift from one job classification to another.²³ The upshot was that workers who thought they would qualify for pension benefits could discover late in their careers that the benefits they had been counting on would not be forthcoming.

Although the major problems with the burgeoning pension system had been identified by reformers and

political leaders during the 1950s and 1960s, they were not systematically addressed until Congress enacted the Employee Retirement Income Security Act of 1974 (ERISA). The collapse of Studebaker's inadequately funded pension plan in 1964 was a wake-up call about gaping holes in the system and became the oft-cited catalyst for the passage of ERISA, which resulted in the creation of the Pension Benefit Guaranty Corporation (PBGC). The PBGC is a federal corporation that protects (up to a maximum amount) the pensions of workers whose DB plans have been terminated. The demise of Studebaker left 7,000 workers, the majority of whom had vested rights to a pension, with few or no pension benefits to show for many years of work for the company.²⁴

ERISA protects the DB pensions of America's workers by making it more difficult for employers

My View

Jacob S. Hacker

Professor of Political Science, Yale University; Fellow, the New America Foundation;
Author, *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement—And How You Can Fight Back*

Restoring the American Social Compact: There Was a Compact, It Is Under Siege, and It Must Be Revitalized

The greatest change in the relationship between workers and employers in the last generation is the transformation of the social compact. The old compact—never enjoyed by all workers and almost always implicit—said that workers and employers shared the risk of market uncertainty as well as the gains of productivity and innovation.

The shared gains we know much about. The shared risks we know less about because they were hidden in private corporate practices and in the nation's Byzantine tax code, which showers hundreds of billions in tax breaks on workplace benefits each year. On the worker side, shared risk meant loyalty to firms, commitment to fellow employees, and a degree of restraint in demanding compensation. On the employer side, shared risk meant developing workers' skills, providing generous guaranteed benefits, and buffering workers from fluctuating demand. The bargain held because it worked for both parties—workers received financial security; employers got loyal, productive workers who invested in skills specific to their jobs.

Beginning in the 1970s, the old compact unraveled under competitive pressure. This was probably inevitable, but the shape of the new arrangements that emerged was not. The form they took was influenced by the era's antigovernment ethos, the decline of organized labor, and the increasing corporate focus on short-term stock fluctuations.

The old social compact was about shared fate—workers and their companies rose and fell together. The new social compact (really a private contract) was about individual gain—workers and companies stayed together when, and only so long as, it benefited both. This change didn't mean a drop in pay or benefits per se. Some workers did even better under the new system than the old. What it meant was a shift in risk.

We can see the shift in the movement to defined contribution pensions like 401(k)s, which place all the risk of retirement planning on workers. We can see it in the decline and restructuring of health insurance. And we can see it in the breakdown of job security.

Many of the larger changes that have led to this transformation cannot be reversed. Yet accepting these changes does not mean accepting the "Great Risk Shift." Our first priority should be to prevent further erosion of shared risk. Our long-term priority, however, should be to construct a new social compact that fills the biggest gaps in the present.

The emphasis should be on a portable framework of basic financial security. Although employers should be encouraged (and sometimes required) to contribute, this framework should move seamlessly from job to job. The possible proposals are many, but four stand out: strengthening Medicare and Social Security, creating a universal 401(k), encouraging employers to purchase health insurance for workers through a Medicare-like system, and developing a new catastrophic insurance program that serves as a last line of defense for family finances.

To reclaim and update the social compact will require more than new laws. It will require rediscovering and rearticulating what makes America a nation of hope, pride, and common good.

My View

Sara Horowitz

Executive Director, Working Today—Freelancers Union

Historically, the social compact has been a partnership between government and workers—a partnership facilitated by employers. Once government identifies the necessary services and protections, it designs regulations and incentives that encourage employers to provide them. Examples include payroll taxes that fund unemployment insurance and Social Security, and employer tax breaks for providing health insurance and pensions. These are just two ways that government has mandated and supported the formation of our privatized system of social insurance.

Today, employers' role in the social compact is being challenged by changes in the workforce. Workers change jobs more frequently than did workers of recent generations. Many work as contract employees, temps, or part-time workers, arrangements in which the employer-employee relationship is weak. Increasingly, workers are abandoning the employer-employee relationship altogether and becoming freelancers or independent contractors. A recent study issued by the Government Accounting Office estimates that workers in these alternative arrangements comprise nearly a third of today's workforce. These trends reflect a loosening of the once-close bond between employers and employees.

But this shift need not inevitably lead to a workforce that is cut off from essential benefits and employment law protections. Social insurance works because risks—like job loss, medical crises, or disability—are spread across a large, diverse group of people. Everyone contributes something to the pool to hedge against the possibility that they will experience an unexpected financial upheaval in the future. As the workforce changes and employers are less able to facilitate the social compact, new intermediaries are needed to form groups and provide access to social insurance.

As an alternative to the employer-mediated system, government can encourage these new intermediaries—such as existing chambers of commerce, unions, and guilds, or newly developed associations, community groups, and purchasing alliances—to step in and form the groups that make social insurance work. As an added advantage, these groups would allow workers to access social insurance through democratic institutions dedicated exclusively to their interests.

To create a social insurance system for the new workforce, government needs to support innovative systems of social insurance delivery, rather than focusing exclusively on bolstering a declining employer system.

to avoid their pension obligations. However, many employers have found its regulations burdensome and expensive to administer,²⁵ thus heightening the appeal of less regulated plans.²⁶ Nonetheless, the number of DB plans increased—although not as rapidly as DC plans—for some years following the enactment of ERISA but before the promulgation of 401(k) rules (table 2-1). After peaking at just more than 175,000 in 1983, the number of DB plans began to plummet.²⁷ The Revenue Act of 1978, which added section 401(k) to the Internal Revenue Code and ERISA, permitted employees to make pre-tax

contributions to employer-sponsored retirement savings plans. In 1981, the IRS issued regulations on 401(k) plans, which are a form of DC plan. By 1985, DC plans had more than 33 million participants, up from 11 million in 1975 (table 2-1).

By 2006, there were fewer than 49,000 private sector DB plans, with just under 20 million active participants overall. Nearly 66 million employees participated in DC plans.²⁸ The decline in DB plans has occurred disproportionately among small firms, mainly among pension plans with fewer than 100

Table 2-1. Defined Benefit Plans Are Shrinking; Defined Contribution Plans Are on the Rise

Number of Defined Benefit and Defined Contribution Plans and Active Plan Participants, Selected Years, 1975–2005				
Year	Defined Benefit Plans	Defined Benefit Plan Participants (1,000s)	Defined Contribution Plans	Defined Contribution Plan Participants (1,000s)
1975	103,346	27,214	207,748	11,217
1980	148,096	30,133	340,805	18,893
1985	170,172	29,024	461,963	33,244
1990	113,062	26,344	599,245	35,488
1995	69,492	23,531	623,912	42,662
2000	48,773	22,218	686,878	50,874
2005	47,614	20,310	631,481	62,355
2006	48,579	19,919	645,971	65,832

Sources: U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin, Abstract of 1993 Form 5500 Annual Reports*, No. 6 (Winter 1996), tables F1 and F8; U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin, Abstract of 2000 Form 5500 Annual Reports* (preliminary)(July 2005), table A1; U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin, Abstract of 2005 Form 5500 Annual Reports* (February 2008), table A1; U.S. Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Bulletin, Abstract of 2006 Form 5500 Annual Reports* (December 2008), table A1.

participants.²⁹ Recently, however, a number of large pension plans in healthy companies have been terminated or “frozen,” which ends the accrual of pension benefits for all employees.³⁰

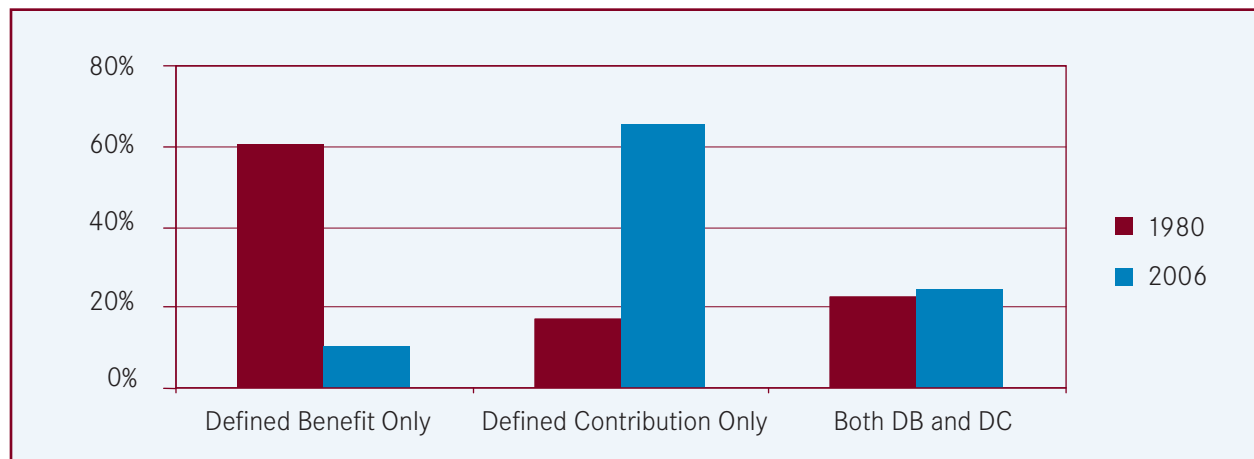
Today, the DC plan (usually a 401(k)) is the most widely available employer-provided pension plan. Although when they first appeared in the early 1980s, DC plans were primarily supplemental plans offered alongside DB plans, they are now more often the only pension plan an employee has—the only plan, that is, among workers who are eligible to participate in an employer plan and who have the financial means and foresight necessary to make contributions to a retirement plan (figure 2-1).

A company offering a 401(k) plan is not required by law to contribute to the plan. However, the vast majority of plan participants (91 percent in 2004) belong to a plan that offers a matching contribution if the employee contributes.³¹ In most 401(k)

plans, the employer may reduce or eliminate the matching contribution at its discretion, and some firms suspended or eliminated the match during the recession that began in December 2007.³² The ability to make such changes to the match adds to the uncertainty workers face concerning their income security in retirement.

Along with the trend toward DC plans, a shift to cash balance (CB) plans has occurred among the remaining DB plans. CB plans provide each participant with a hypothetical account. The employer credits the account each year with a dollar amount based on a percentage of the employee’s earnings and a rate of return on the employee’s accumulated contributions. This crediting arrangement differs from that in a traditional DB plan where the participant’s future benefit is generally tied to years of service and final average salary. As of 2005, employers sponsored about 3,100 CB plans, accounting for 25 percent of active DB

Figure 2-1. Type of Pension Coverage, 1980 and 2006
(Percent of Workers Covered by a Plan)



Source: Center for Retirement Research at Boston College, “Frequently Requested Data: Private Workers with Pension Coverage, By Pension Type, 1980-2006” (Chestnut Hill, MA: Center for Retirement Research at Boston College), accessed June 17, 2009 at http://crr.bc.edu/images/stories/Frequently_Requested_Data/frd_table1-1-2009.xls.

plan participants.³³ For regulatory reasons, it has been easier to convert DB plans to CB plans than to terminate DB plans and start new 401(k) plans.

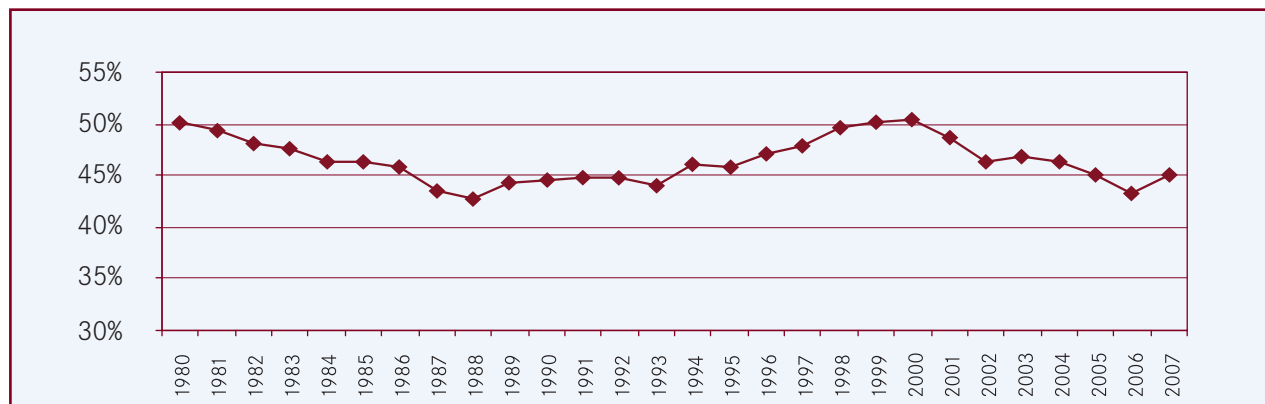
In 2007, 45 percent of private sector workers ages 25 to 64 participated in a pension plan at work.³⁴ The percentage of private sector workers participating in pension plans has varied over time, but there has been no clear long-term trend since the early 1980s. Participation declined during the 1980s and rose again during the 1990s (figure 2-2) and then fell to 43 percent by 2006 before ticking back up to 45 percent in 2007.³⁵

A key point, however, is that pension coverage in recent years has been below what it was in 1980.³⁶ The post-ERISA decline in pension coverage has been

attributed to a weakening of big business, big labor, and big government, which together had created the employer-sponsored private pension system in the United States.³⁷

Whatever the reasons for the decline, pension coverage was never extended to the entire workforce. If a golden age of pension coverage can be said to have existed, it still left millions of workers, particularly in small firms, unprotected. Even at the peak of private pension coverage, roughly half of workers did not participate in a pension plan. Many workers uncovered at any particular point have vested benefits from a prior job or will obtain them in a future one. A shrinking proportion of the labor force, however, can anticipate a pension that promises an employer-guaranteed, lifetime annuity.

Figure 2-2. Fewer Than Half of Workers Participate in a Pension Plan
Pension Participation Rate of Private Sector Workers Ages 25–64, 1980–2007



Sources: Center for Retirement Research at Boston College, *Pension Sponsorship and Participation Nationwide*, calculations of data in U.S. Bureau of the Census, Current Population Survey (Chestnut Hill, MA: Center for Retirement Research at Boston College, March 27, 2008), accessed October 22, 2008, at http://crr.bc.edu/images/stories/Frequently_Requested_Data/cps_pension_coverage.xls?phpMyAdmin=43ac483c4de9t51d9eb41; Patrick Purcell, *Pension Sponsorship and Participation: Summary of Recent Trends*, CRS Report for Congress (Washington, DC: Congressional Research Service, September 8, 2008), table 2, accessed June 22, 2009 at <https://secure.wikileaks.org/leak/crs/RL30122.pdf>.

My View

Christopher J. McCormick

President and CEO, L.L.Bean Inc.

L.L.Bean Inc. has long operated in accordance with the stakeholder concept of corporate governance put into place by our company's chairman, Leon Gorman. This concept balances the interests of customers, employees, shareholders, vendors, communities, and the natural environment in setting corporate business goals and executing plans. At the heart of this philosophy is an unflinching commitment to providing L.L.Bean customers with reliable products and quality service. To fulfill this commitment, the key stakeholder upon whom we rely is the L.L.Bean employee.

L.L.Bean has achieved success as a company by holding fast to a foundation of strong ideals: quality products, a legendary satisfaction guarantee, exceptional customer service, an unwavering respect for people, and a demonstrated commitment to corporate citizenship and outdoor conservation and recreation. Our reputation as a company that truly cares about such matters hinges upon the ability of our employees to embrace and impart these values to all L.L.Bean stakeholders.

To fully appreciate the role our "more senior" employees play in this collective effort, we must recognize that conventional views and expectations of retirement are changing in fundamental ways. Across the nation people who are at or near traditional retirement age are increasingly forgoing full retirement in favor of part-time employment. In addition to seeking opportunities for supplemental income and rewarding work, they also benefit from participating in health and exercise programs, tuition reimbursement, flexible work arrangements, and social interaction at work. They want to remain connected, learn new skills, and continue to contribute in meaningful ways, and are naturally drawn to organizations where they can feel good about doing so.

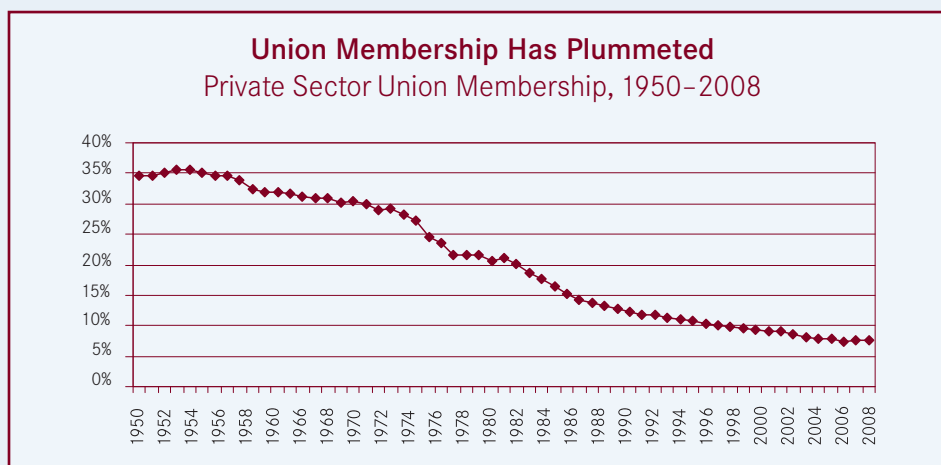
At L.L.Bean, we've long valued the experience, commitment and contributions of mature workers. These employees are sought out and welcomed into our culture because they bring to their jobs an inherent appreciation of our company's values and act as superior role models for colleagues of all ages. A walk through any of our worksites—especially during our peak holiday season—demonstrates the vital role mature workers play in our success. And one look at our employee demographics shows that it's in our own self-interest to support and encourage mature workers to extend their careers with us—our average age is now 46, with 36 percent age 50 or over.

We know that we're a stronger, more successful company because we've invited people of all ages and backgrounds to bring their talents and best efforts to the workplace. The aging of the American workforce is a reality that does require new social compacts be formed—it's also a business imperative that we, as a nation, cannot afford to ignore.

LABOR UNIONS AND THE SPREAD OF EMPLOYEE PROTECTIONS

Labor unions have played a key role in the expansion of employee benefits, including generous early retirement incentives.³⁸ Union workers, for example, are substantially more likely than their nonunion colleagues to have health insurance and pension coverage; they also have more weeks of vacation.³⁹ The Economic Policy Institute points out that nonunion workers have benefited from union negotiations that “set the norms and established practices that become more generalized throughout the economy, thereby improving pay and working conditions for the entire workforce.”⁴⁰

From the late 1940s through the mid-1960s, labor unions represented 30 percent or more of private sector workers in the United States. By the late 1960s, however, union membership began to dip noticeably, and as of 2008, there were only about 8.3 million private sector union members, representing 7.6 percent of all private sector wage and salary workers.⁴¹



Sources: 1949–2006: Figure 1 in Data Appendix for figures accompanying Barry T. Hirsch, “Sluggish Institutions in a Dynamic World: Can Unions and Industrial Competition Coexist?” *Journal of Economic Perspectives* (Fall 2007), data available at <http://www.trinity.edu/bhirsch/unionstats/>. Check the website appendix for notes to the statistics. 2007 and 2008 data: U.S. Department of Labor, Bureau of Labor Statistics, “Union Members in 2008,” News USDL 09-0095, January 28, 2009, table 3, <http://www.bls.gov/news.release/pdf/union2.pdf>.

Shifting Risk from Employer to Employee

A distinguishing aspect of DB pension plans is that employers bear the risk of deciding where and how much to invest and ensuring that benefits are eventually paid. To collect benefits in retirement,

eligible employees have to remain with the company sponsoring the plan only long enough to vest. Since the mid-1970s, risks have shifted from employers to employees as more businesses have moved from DB to DC plans such as 401(k)s.

EVEN WITH PENSION COVERAGE, PARTICIPANTS FACE RISK*

DB Plan Risks

Portability. There is a risk that a job change will reduce or eliminate the value of an employee's pension. This risk occurs for short-tenure workers in all types of pension plans when they have not worked long enough to vest (i.e., acquire the legal right to a pension).

Inflation. Inflation may erode the value of pension benefits in retirement or prior to retirement. In general, traditional DB plans do not automatically index retirement benefits for inflation.

DC Plan Risks

Investments. Investments may not perform as expected. Investment risks arise for those enrolled in DC plans because they bear the effects of the ups and downs of the stock market. Participants may also not have diversified investments or be overinvested in their company's stock, which compounds job-loss risk.

DC and CB Plan Risks

Longevity. Participants may live longer than expected and, as a result, have insufficient funds to carry them through retirement. Longevity risk is borne entirely by participants in DC and CB plans if they do not annuitize.

Annuitization. Risk may result from the unpredictable cost of purchasing an annuity due to swings in interest rates. Annuitized benefits in these plans will be lower if the annuity is purchased when interest rates are low.

DB, DC, and CB Plan Risks

Earnings. Job loss or pay cuts may result in reduction of pension benefits. Earnings risk affects employees in traditional DB plans, CB plans, and DC plans. In traditional DB plans, earnings volatility may affect final pay and therefore retirement benefits. In DC plans and CB plans, contributions are based on wage/salary levels.

Political. Government policies may change in ways that make pension plans more costly or less desirable for employers to provide or for workers to participate in.

Employer Default. Employers may go bankrupt, terminate plans, reduce or freeze contributions, or make other changes that threaten the pension accumulations of workers.

* Employers also face risks, including the risk that their contributions will not grow sufficiently to meet future pension obligations.

With DC plans, employees bear the risk that plan contributions and investments may prove inadequate in retirement. Employers only have to make any matching contributions promised on behalf of their employees.⁴² Although all types of pension plans have some risk associated with them (see box), the risks that DC plans pose to workers and their families are especially worrisome. Between 1990 and 2002, the percentage of participants in DC plans with at least some responsibility for investment decisions rose from 29 percent to 82 percent.⁴³ This shift increases the likelihood of unsophisticated participants who may have little knowledge of investing making poor financial decisions.

Why Has the Picture Changed? Might It Be Changing Again?

The shift from DB to DC plans has occurred, in part, because of changes in pension law (as noted above), increased global competition, changes in worker behavior, and worker preferences. Employment shifts across industries—with increased employment in industries with lower pension coverage—and a decline in the percentage of the workforce covered by collective bargaining agreements have contributed to the reduction in the number of companies offering DB plans. Increasing global competition in some industries may affect the pension plans offered by those industries as companies strive to reduce costs and increase the flexibility to adjust their workforces. Company efforts to minimize the bottom-line risks of interest rate and stock market volatility also heighten the appeal of switching from DB to DC pension plans.

All private sector industries have experienced some decrease in DB participation. However, the large difference in the decline across industries—for example, a 39 percentage point decrease in textiles, but only a 15 percentage point decline in insurance—suggests that important factors vary by industry.⁴⁴ Factors affecting the costs of pension plans (such as the regulatory burden on DB plans) have had an impact on the switch from DB to DC plans. All of

these factors may also affect the shift from traditional DB plans to CB plans, which, from the perspective of the employees, have many similarities to DC plans.

The Employer Perspective. Companies may shift from DB to DC plans because pension laws have made it more difficult to control the volatility of DB plan costs. Changes in pension law in 1994 that restricted contributions to overfunded plans and raised the amount required for underfunded plans have prevented companies from making contributions during economic booms and forced them to contribute during economic downturns. Stock price booms reduced the amounts companies had to contribute, and stock price busts required larger contributions. The late 1980s enactment of steep taxes on employers when they take reversions of excess pension assets, which employers had viewed as “free” sources of cash for the business, has also reduced the attractiveness of DB plans to employers. In addition, the change in pension law permitting tax-deductible employee contributions to 401(k) plans has enhanced the attractiveness of DC plans to both employers and employees.

Switching to DC plans allows employers to transfer costs to employees: Companies can pass the administrative expenses on to workers by charging expenses to the plan. Another reason why businesses may terminate traditional DB plans or switch to CB plans is to end pension features that encourage early retirement.⁴⁵ Yet another reason is that employees do not seem to value DB plans as much as they do DC plans.⁴⁶

The Employee Perspective. The portability and often earlier vesting of DC plans likely appeal to workers. In addition, some workers may find DB plan benefit formulas too complicated to understand. Employees may more easily grasp the value of current account balances in DC plans than the value of future benefits paid by DB plans—and favor the DC plans when times are good and returns are high. (Of course, the opposite may be the case when the market takes a

My View

Steven Pearlstein

Business columnist for *The Washington Post*

Twenty-five years ago, there was surely an unwritten compact between most companies and their workers. In strictly economic terms, labor markets were inefficient (that, is, overly generous and flexible), because the product markets in which these companies operated were also imperfectly competitive. Companies earned “rents,” as economists call generous profits, and these were passed on in large part to employees in the form of above-market wages, generous benefits, job security, and an egalitarian pay structure that undercompensated top performers and overpaid everyone else.

Why did companies behave this way?

One reason was that the labor movement was stronger, and unions forced companies to provide wages and benefits above what the market might have required. These union wages and benefits set standards and wage floors that extended to nonunion shops as well, creating a race-to-the-top competition for the best workers made possible by the fast-growing economy and demographic changes taking place in the decade after World War II.

Another reason is that financial markets were imperfectly competitive. Investors, which in those days were mostly large institutional investors such as banks and insurance companies, weren’t as demanding as they have become. Money managers were happy with steady but unspectacular returns, in part because their own compensation schemes were egalitarian and did not provide them huge rewards for spectacular returns.

Finally, in those postwar years in particular, there was much more of a general feeling that “we are all in this together.” That spirit had pulled the country through the war and turned it into the world’s economic and military colossus. And it comported with the middle-class social and political ethic of the period.

Of course, that’s all changed. It’s hard to say what one factor started the chain reaction that has led to a more efficient, competitive, and—yes—ruthless set of financial, product, and labor markets. Junk bonds and hostile takeovers were a big factor in financial markets, as was the democratization of finance through mutual funds. Globalization and trade made product markets more competitive. Most of what we think of as changes in the social compact flowed directly, or indirectly, from these.

Now the pendulum is swinging back. People realize they can’t go back to lifetime employment, or pay based largely on seniority, or defined benefit pension plans. And in any case, they’re not willing to give up the competitive product markets to make it possible. They understand the link between Wal-Mart wages and Wal-Mart prices.

But they are now open to government mechanisms to restrain the competition in ways that take some of the insecurity out of economic life without jeopardizing the efficiency and competitiveness of the economy. Sheer morality demands it, but so will demographic change that will make jobs more plentiful than workers.

This might take the form of higher minimum wage, a health benefit mandate, and pensions systems that are portable and subsidize low-income workers.

It might take the form of an expanded unemployment insurance program that includes coverage of all workers and includes more generous payments, funds for community college, and extended health benefits. Employers would pay the extra premiums, but as any economist will tell you, in the long run the money would come from forgone wages.

At some point, politicians will get around to restoring the right of workers to form a union, in exchange for rules that allow for a greater variety in the types of employee organizations and the forms of collective bargaining.

There might even have to be some changes in the rules governing financial markets, so that institutional investors are encouraged to think more in long-run terms, rather than chasing double-digit growth in quarterly earnings.

NOTE: As a columnist for *The Washington Post*, Mr. Pearlstein could not be compensated by AARP for his commentary. Nor does his commentary imply endorsement of AARP's legislative agenda.

nosedive and accumulations plummet.) Employees might also undervalue annuities relative to lump-sum payments because they underestimate how long they will live and they discount the future at too high a rate. Some employees might like the features of DC plans, in which employees can pick both the level of risk they want to bear and the level of contributions they make, although the risk apparent during the recession that began in December 2007 may have been more than they bargained for. But some workers find choosing investments in DC plans to be a daunting task, particularly in periods of volatility. Pension participants often make investment errors, such as following trends, which lead to them buying high and selling low.⁴⁷

The preference of employees for DC plans—at least until the end of December 2007—appears to be part of the reason for employers' switch from DB to DC plans. Indeed, a 2006 *Wall Street Journal*/Harris Interactive poll found that Americans preferred a DC plan over a DB plan by a wide margin (79 percent versus 21 percent) if they “had a choice and [their] employer was willing to put in the same amount.”⁴⁸ Nonetheless, when actually offered a choice between a DB and a DC plan, workers in at least one instance chose DB plans. In this case, state government employees in Florida were given the option of switching to a DC plan or staying with their DB plan,

and most stayed with their DB plan; only 4 percent switched to the DC plan.⁴⁹ In the State University Retirement System of Illinois, where a traditional DB plan was the default, a majority of workers did not make a choice and ended up in the default plan. However, the self-managed DC plan was most likely to be chosen by employees described as “most likely to be financially sophisticated,” such as university academics who are highly educated and have greater incomes. In fact, these employees were more than twice as likely as other employees to opt for the self-managed plan.⁵⁰

Implications for Retirement Security

As of 2006, more than 40 percent of households in the United States were estimated to be at risk for not having saved enough to maintain their preretirement standard of living in retirement,⁵¹ a figure that has likely risen as a result of the huge market losses 401(k) plans recently experienced.

The shift from DB to DC plans may have been contributing to this problem even before the recent market downturn. About one-fourth of employees who are offered a 401(k) plan do not participate at all, and only about one in ten contribute the maximum allowed by law.⁵² To some extent, nonparticipation appears to represent inertia rather than a reasoned choice. In comparison, participation in a DB plan is automatic for all eligible workers, so employee inertia does not result in a loss of future pension benefits.

Participants in 401(k)s have not accumulated large amounts in their accounts. As of 2004, the median 401(k) balance for household heads ages 55 to 64 who had a 401(k) was \$60,000.⁵³ Balances generally increase with age, tenure, and earnings, according to the Employee Benefit Research Institute. For example, workers in their 50s with 5 to 10 years of tenure had an average 401(k) account balance of \$63,783 in 2007, while those of the same age with 20 to 30 years of tenure had \$194,385.⁵⁴ A recent analysis of the 2007 Survey of Consumer Finances by AARP's Public Policy Institute found median 401(k) assets of \$2,500 for working families in the lowest income quintile, \$16,500 for such families in the third income quintile, and \$91,000 for those in the highest quintile.⁵⁵

The shift from DB to 401(k) plans may increase the gap between the pension assets of high- and low-income employees, including women and minorities, resulting in a growing inequality in pension wealth.⁵⁶ The shift may lower the benefits of disadvantaged groups because of their lower participation rate in 401(k) plans and because of differences in the percentage of wages contributed.⁵⁷ On the one hand, women are more likely than men to change jobs or take a leave of absence from their current job, so the shift from DB to DC plans favors women while they are working. On the other hand, women tend to live longer than men and thus benefit relatively more than men from the annuitization provided by DB plans. Women's wages are generally lower than men's, and many women may accumulate less in their DC plans. Women who rely on a husband's pension benefits can be worse off as a result of the switch to DC plans because DB plans require joint and survivor annuities unless waived by both spouses, while DC plans do not unless an annuity is provided.

Retirees and their spouses relying on 401(k) plans bear both financial market risk and longevity risk. Employees in 401(k) plans generally do not purchase annuities but instead receive their benefits in lump-

sum payments. As a result, they face a difficult problem not faced by DB plan participants, which is how to ensure they will not run out of money toward the end of their or their spouse's lives.

Employees who retire from long careers with a single employer may face greater risks from participation in DC plans than DB plans. The risks associated with DC plans include the risk that investment choices will perform poorly. This type of risk is borne by the employer in a DB plan and by the employee in a DC plan. In addition, participants in DC plans face longevity risk (the risk of outliving one's accumulated assets).

DB plans are not without risk themselves, however. Employers that sponsor a DB plan may decide to terminate it, for example.⁵⁸ Recent well-known cases of DB plan underfunding have imperiled the retirement security of many workers. Furthermore, DB plan formulas may pose problems for midcareer job changers and for the oldest workers. These formulas typically accrue relatively few benefits until the worker is quite senior, but after a specified age many plans slow or stop benefit accrual. Hence, workers who are considering a job change in their 30s, 40s, or 50s may find themselves facing large losses in future benefits or, alternatively, locked into jobs they would prefer to change.

EMPLOYER-BASED HEALTH INSURANCE: A STEADY UNRAVELING

For more than half a century, American workers and their families have relied on a private, employment-based system of health insurance. This private system has never covered everyone, instead excluding millions of part-time and low-paid workers and retirees. Moreover, employer coverage has slowly and steadily unraveled over the past several decades, with especially worrisome declines in recent years—despite a period of relative prosperity. Coverage for retired workers and for workers' families has been

especially hard hit. Squeezed by rising health care costs, employers have increasingly shifted costs to workers and transformed the health benefit plans they offer in ways that may reduce employers' spending but increase costs and risks for workers.

Insurance for Workers

The Early Years. Employer-based health benefit programs have existed for more than 100 years.⁵⁹ In the 1870s, industries such as railroads and mining provided medical care to their employees.⁶⁰ By 1910, Montgomery Ward became one of the first firms to enter into group insurance contracts providing both disability insurance and medical care to its employees.⁶¹ Other large firms followed suit after experiencing significant income losses due to sickness.⁶² By the 1920s, as health care costs rose, millions of Americans found it difficult to meet those expenses.⁶³ In 1929, the first Blue Cross prepayment plan covered a group of more than 1,300 Dallas schoolteachers. In exchange for hospital care, the teachers made small monthly payments to Baylor University Hospital. These early plans were offered exclusively to job-based groups, including teachers and bank and newspaper employees, and required employer groups to guarantee a fixed level of participation.⁶⁴ At the time, relatively few Americans had access to any health insurance, and most of the plans that were available provided limited coverage such as hospital room, board, and ancillary services.⁶⁵

It was not until World War II that the employer-based health care system began to flourish.⁶⁶ With price and wage controls imposed by the National War Labor Board and the wartime demand for workers, employers began offering health insurance and other nonwage benefits to recruit and retain workers.⁶⁷ This led to an increase in health insurance coverage from 1.3 million to 32 million workers between 1940 and 1945.⁶⁸ The exemption of nonwage benefits from both payroll and income taxes further encouraged employer-based coverage.⁶⁹ Unions were

also instrumental in negotiating employee health benefits.⁷⁰

The Post-World War II Years. By the mid-1960s, about 70 percent of the population had some form of health coverage.⁷¹ Employer health benefits afforded workers improved access to care and a measure of financial security during an illness. But for those without employer coverage or financial resources, access to health care in the event of an accident or health problem was uncertain. Thus, the federal government implemented policies to improve access to health care through direct support of service providers (e.g., hospitals) and the development of publicly funded health coverage. Two of the major public policy initiatives of the 1960s, Medicare and Medicaid, were designed to address the needs of populations (the elderly; mothers and children on welfare; and the poor, blind, or disabled) who did not have access to coverage through employment.

Between the 1970s and the early 1990s, the structure and financing mechanisms of the health insurance system began to change. Health maintenance organizations (HMOs) offered an alternative model to conventional health insurance. Instead of paying claims for a portion of the charge for a hospital stay or visit to a doctor, HMOs combined the financing of health coverage with the delivery of care by providing health care directly to the covered population through a network of providers. HMOs had tools to manage the use and cost of health care services. Other types of health coverage options such as preferred provider organizations (PPOs) and point-of-service (POS) plans emerged. These plans adapted elements of traditional insurance and HMOs in an effort to control the rising costs of health care. By 2000, another coverage option began to emerge: the high-deductible health plan paired with a savings option (HDHP/SO). This type of plan, more commonly known as a health savings account (HSA), was built on existing health plans; it gave workers more responsibility for paying for their health costs with a high deductible, but it introduced financial

accounts, sheltered from taxes, to help with their health expenses.

As managed care products spread, employment-based health insurance plans changed. The percentage of employers offering managed care plans dramatically increased, and the percentage of employers with conventional plans decreased. These changes in employer offerings were reflected in enrollment patterns. In 1993, conventional health plans enrolled 46 percent of covered workers, HMOs enrolled 21 percent, PPOs enrolled 26 percent, and POSs 7 percent.⁷² By 2008, 2 percent of covered workers were in conventional plans and 8 percent were covered by HDHP/SO plans (figure 2-3).⁷³

Coverage Trends

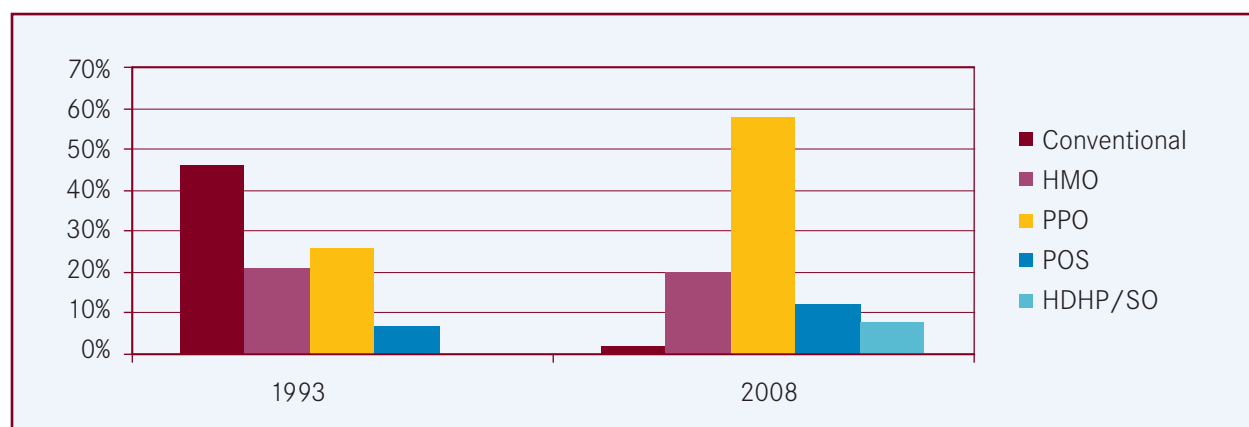
Employer-sponsored benefits remain the most common source of health coverage for adults under age 65. Analysis of the Census Bureau's Current Population Survey, the most widely used source of

information on U.S. health insurance trends, reveals that about two-thirds (64 percent) of all adults ages 18 to 64 were covered by private, employment-based health insurance in 2007 (figure 2-4).⁷⁴

Among *working* adults in the same age group, the portion covered is slightly higher. Seventy-one percent of working adults ages 18 to 64 were covered by employer-sponsored insurance in 2007.⁷⁵ Eighteen percent had Medicaid coverage, and nearly 5 percent had no coverage.⁷⁶ The proportion of working adults with employer-sponsored coverage peaked at nearly 75 percent in 2000. Employer-sponsored coverage declined 3.8 percentage points by 2007.⁷⁷

The probability that a private sector employer will offer health benefits is influenced by various characteristics, including firm size, wage level, and unionization.^{78, 79} In general, workers in small firms (3 to 199 employees) are less likely to be offered benefits than those in large firms (200 or more workers). The percentage of small firms offering benefits peaked at

Figure 2-3. Health Plan Enrollment by Plan Type, 1993 and 2008
Percent of covered workers enrolled



Source: Henry J. Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2008 Annual Survey*, #7790 (Menlo Park, CA: Henry J. Kaiser Family Foundation, and Chicago: Health Research and Educational Trust, September 2008), exhibit 5.1, <http://ehbs.kff.org/pdf/7790.pdf>.

Figure 2-4. Sources of Health Insurance Coverage among Adults Ages 18 to 64, 1999–2007



Source: AARP Public Policy Institute analysis of Current Population Survey data 1999 through 2007.

68 percent in 2000, declined to 60 percent six years later, and rose to 62 percent in 2008, while the share of large firms offering benefits remained constant at 98 percent to 99 percent.⁸⁰ The cost of health insurance is the main reason employers give for not offering it.⁸¹ More than four-fifths of small employers that do not offer health insurance believe that their employees prefer higher wages to health insurance.⁸²

Rising Costs Squeeze Health Benefits

The structure and scope of employer-sponsored health benefits has evolved considerably over time. Advances in medical technology and treatment, along with increased consumer demand, have led to rising health care costs. In the past decade, signs of the erosion of employer-sponsored health benefits have begun to appear, with a smaller share of workers being covered and coverage becoming more restrictive.

Premiums. Rising health insurance premiums have fueled an affordability crisis. Between 1999 and 2003, premiums for employer-sponsored health insurance not only increased annually, but grew

at increasing rates, with the increase peaking at 13.9 percent in 2003.⁸³ Premium increases have moderated somewhat since then. In 2007, the average premiums for employer-sponsored health insurance increased by 6.1 percent—the lowest rate of increase since the beginning of the decade, but faster than the rate of increase in workers' earnings (which grew by 3.7 percent) or the overall rate of inflation (which stood at 2.6 percent).⁸⁴ On average, premiums have increased 78 percent since 2001.⁸⁵

Faced with seemingly inexorable cost increases, employers have sought to contain their spending on health care by shifting costs to workers. Relatively few workers are employed by firms paying the *full* cost of health insurance coverage. In 2008, 20 percent of workers were employed in firms that paid the full cost of single coverage; 7 percent of workers were employed in firms that paid the full cost of family coverage.⁸⁶ Employees are now paying a larger share of the growing costs of coverage. In 2008, family health coverage cost an average of \$12,106 a year, with workers paying an average of \$3,354 toward those premiums, in excess of \$1,800 more than they paid in 2000.⁸⁷

My View

Robert B. Reich

Professor, Goldman School of Public Policy, University of California at Berkeley,
and former U.S. Secretary of Labor

The twentieth century social compact between employers and employees, which reached its zenith in the 1950s and 1960s, had the following three provisions:

1. As long as the company remained profitable and the employee did a good job, the employee would remain on the payroll. During dips in the business cycle, the employee might be temporarily laid off, but would collect enough unemployment compensation to tide him over until the economy picked up again and he was rehired.
2. If the company's profits grew, the employee's real wages and benefits would grow as well.
3. Benefits would include tax-favored health insurance, pension benefits, and health care in retirement. The pension would come in the form of a fixed monthly amount which, when combined with Social Security, would be sufficient income for retirement needs.

This compact appeared in writing in many union contracts. It also shaped the unwritten agreements between employees and employers in nonunion settings, and served as an aspiration for smaller businesses and their employees. It generated a huge middle class capable of engaging in the mass consumption that mass production required in order to keep the economy moving at full tilt.

But the twentieth century social compact began unraveling in the 1970s. It unraveled even more in the 1980s and 1990s. Now, it's almost entirely gone. What happened to it?

Some blame globalization and outsourcing. Others blame corporate greed. Still others blame deregulation. All these may have played a part, but none gets at the real issue.

The social compact unraveled because power shifted from large corporations and their unionized employees to consumers and investors. Starting in the 1970s and accelerating thereafter, consumers and investors had more choices and access to better deals than were offered by the large organizations of mass production that dominated business in the mid-twentieth century. Cargo ships, containerization, satellite communications technologies, computer-aided design and manufacture, robots and numerically controlled machine tools, and then the Internet, all fragmented the stable system of mass production.

Consumers could shop with ease and find better deals that depended on low labor costs—either because the workers were from developing nations or because software could do the job more cheaply. At the same time, investors could shop with ease and make better returns from companies that squeezed their costs and generated higher earnings.

Nowhere did the social compact between employers and employees show itself as clearly as in the automotive industry. Twenty-five years ago, the United Auto Workers (UAW) had 1.5 million members. The Big Three automakers granted generous wage and benefit packages to them. As a result, America's auto workers were blue collar but their wages and benefits put them near the top of the middle class. Today, the UAW has fewer than 600,000 members, and they're descending into the lower middle class. Their health benefits have been cut. Their retirement benefits are uncertain.

Who's to blame for all of this? You and me. We've demanded inexpensive cars that run well. We have not been willing to spend our money paying for the old level of UAW wages and benefits. That's why more than 40 percent of us are buying Toyotas, Hondas, Mini-Coopers, and the like. Many are made in the United States but by employees who have far less generous pay and benefits than UAW members. Competition for our dollars has trimmed GM's and Ford's sales, which is forcing the UAW to trim its own sails. Meanwhile, we as investors have pressured GM, Ford, and Chrysler to further downsize and cut costs.

According to the Consumer Price Index, new cars and light trucks today cost less in real dollars than they did in 1982, despite all the extras like antilock brakes, air bags, CD players, and other features that used to be considered luxury options or were unavailable. And they're more reliable.

You and I have benefited enormously. The American auto worker—along with the old employer-employee compact—has taken it on the chin.

The question for the future is whether Americans would be willing to pay a bit more for the goods and services they receive in order to restore the old employer-employee social contract. And if not, whether they—especially the richest 1 percent, whose earnings have soared in recent years—would be willing to pay more taxes so government could fill the gap.

Since the beginning of the decade, the percentage of firms offering *any* health plan to workers has dropped, falling from 69 percent in 2000 to 60 percent in 2007 but rising to 63 percent in 2008.⁸⁸ Employers have also sought to reduce costs by limiting who is eligible for coverage. Among the large firms (with 200 or more employees) that are most likely to offer health benefits, the share of workers *eligible* for benefits declined from 80 percent in 2000 to 76 percent in 2006, increasing to 78 percent in 2007.⁸⁹ The large majority of workers who have access to employer-based health plans elect to enroll in those plans, with 83 percent of eligible workers in large firms and 81 percent of eligible workers in small firms taking up coverage in 2007.⁹⁰ For most employees, health insurance is clearly a priority, although for some, coverage is increasingly unaffordable.

Benefit Program Changes. Rising costs of employer-sponsored benefits have led employers to seek

different approaches to manage these costs. Many companies that continue to offer coverage have made changes to their health plan benefit design. According to an Employee Benefit Research Institute (EBRI) survey, 19 percent of small firms that offered benefits made changes between 2001 and 2002. For example, 35 percent switched insurers, 30 percent increased the worker's share of the premium contribution, 65 percent increased deductibles and copayments, and 29 percent cut the scope of benefits.⁹¹ In addition, 26 percent of small firms expanded the scope of benefits, and 7 percent made other changes.⁹² However, these types of program changes are not limited to small employers. Worker contributions and cost-sharing changes have increased steadily over the years among employers of all sizes. Plan design changes can also affect take-up rates of health benefits. In 2008, 80 percent of eligible workers in small firms and 83 percent in large firms elected health coverage.⁹³

Retiree Health Benefits

Although employer-sponsored health benefits became more widespread after World War II, these benefits often stopped when workers retired. The extension of health benefits to retired workers was rare, and private insurers were generally not interested in the sale of coverage to older adults. Thus, fewer than half of adults 65 and older had any health insurance coverage in the early 1960s.⁹⁴

The lack of access to health care for older Americans was the major factor that led to the creation of Medicare in 1965.⁹⁵ Medicare was designed to address the lack of available and affordable health insurance for the elderly and to assure that high health care costs would not undermine the financial security of retirees. With the implementation of the Medicare program, nearly all of the nation's elderly had a firm guarantee—access to affordable health care they could never lose.

Many employers chose to supplement Medicare, providing additional coverage to fill in Medicare gaps, notably the high cost sharing associated with many Medicare-covered services. Many large employers also made private health insurance benefits available to retirees who had not yet reached age 65 and attained eligibility for Medicare. The difference in the availability and generosity of benefits between workers and retirees, combined with union bargaining power and, in some instances, employer interest in providing an incentive for workers to retire before Medicare eligibility, played a role in extension of health benefits to retirees.

Because the majority of workers depend upon their employer for health care coverage, they risk being without insurance if they retire before becoming eligible for Medicare. Thus, it is not surprising that the availability of retiree health benefits affects employees' retirement decisions.⁹⁶ According to a Mercer survey, in 2004 the average employee retirement age in firms offering retiree health

coverage was 61 years compared with 64 years in firms that did not offer coverage.⁹⁷ Among men not yet eligible for Medicare but eligible for retiree health benefits, the likelihood of retirement increased 62 percent, even if it involved increased out-of-pocket benefit costs.⁹⁸

The share of large employers offering retiree health benefits to Medicare-eligible retirees is lower than the share offering these benefits to early retirees. In 1993, 46 percent of employers with 500 or more workers offered coverage to early retirees, while 40 percent offered it to Medicare-eligible retirees.⁹⁹ Since then, the offer rates for both groups have dropped—to 29 percent for early retirees and 21 percent for those eligible for Medicare in 2005.¹⁰⁰

Affordability of coverage is a growing concern not just for employers, but for their workers and retirees as well. Older workers who are not yet 65 indicate that a reason to keep working is to maintain or help pay for health insurance.¹⁰¹ However, as employers have sought to limit their own spending on retiree health benefits, retired workers have been asked to bear a growing share of the cost. Increasingly, retired workers are at risk of losing coverage—being forced to drop coverage that may be available—because the premiums they must pay are no longer affordable. In rare cases, employers may eliminate retiree coverage altogether.¹⁰²

Retiree health benefits have been subject to the same cost pressures as employer-sponsored health benefits for active workers. Another problem for employers providing retiree health benefits is the obligation to account for the present value of the future liability on the corporate balance sheet. In the early 1990s, private employers offering retiree health benefits had to implement a Financial Accounting Standards Board (FASB) rule that required them to report both current year outlays and the cost of these benefits as they were earned, rather than as they were used. The FASB rule meant that, for the first time, employers had to estimate and report the future liability of their

retiree health benefits, which brought the extent of these long-term financial commitments into focus. Employers have responded to rising health care costs and FAS 106 requirements in a number of ways: restricting future eligibility, requiring greater retiree cost sharing, and eliminating retiree health benefit coverage altogether.

When retiree health benefits are collectively bargained, the options available to employers to curb costs are more limited. Another response to rising costs and FAS 106 is the prefunding of retiree health benefits through a tax-exempt trust known as a voluntary employees' beneficiary association (VEBA).¹⁰³ Prefunding is attractive because it reduces the liability employers must report on their financial statements.

A significant drop in the share of employers offering retiree health benefits occurred in the post-FASB period. Although accounting standards may have contributed to a decrease in the number of employers offering retiree health benefits, the unpredictability of health care costs relative to overall inflation and wages plays an important role as well. Among large employers offering health benefits to active workers, the percentage offering retiree health benefits decreased by more than half (from 66 percent to 31 percent) from 1988 to 2008.¹⁰⁴

Employers also use a range of strategies to manage the costs of their retiree health programs. However, employers do not necessarily dissolve existing retiree benefit programs completely. Rather, employers are more likely to eliminate benefits for future retirees than for those who have already retired. Because retiree benefit terminations typically target future retirees, the number of retired workers with these benefits will be reduced over time.

Even so, current retirees who continue to have access to retiree health benefits are seeing changes that affect their pocketbooks. Employers have modified

their retiree health benefit programs to limit their liability and share health care cost increases with their retirees. Many employers have placed a financial cap on these obligations. A 2005 survey of large employers offering retiree health benefits found that 63 percent had a cap on the employer's contribution.¹⁰⁵ These caps can take different forms, but once the cap is reached, the retiree must pay subsequent plan costs.

Most employers also require newly retired workers to contribute to premiums. The share varies, but in 2005, 50 percent of all large employers required new retirees to contribute between 21 and 99 percent of the premium, while roughly one in five employers required new retirees to pay the full premium.¹⁰⁶ The average single retiree premium was \$487 per month in 2004 for a new early retiree and \$262 for a Medicare-eligible retiree.¹⁰⁷ Beyond premium contributions, employers have been increasing deductibles, cost-sharing for covered services, out-of-pocket limits, and premium costs for dependents. A small percentage of surveyed employers also have shifted to defined contribution or catastrophic plans with a savings account for retiree health benefits.¹⁰⁸ In these circumstances, retirees continue to have health benefits but are liable for costs that exceed their former employer's defined contribution to retiree benefits or for health spending that does not reach a catastrophic level.

What These Changes Have Wrought

A transformation of employment-based health insurance coverage, under way for decades, has eroded coverage and increased costs for both working families and retirees. As employers have scaled back benefits, eliminated coverage, and shifted costs to workers, the income and health security of families has been weakened. Forty-six million Americans—the majority in working families—lacked health insurance in 2007.¹⁰⁹ Public programs, most especially Medicaid and the State Children's Health

Insurance Program, have helped offset these coverage declines for some children in working low- and modest-income families. But without comprehensive health care reforms designed to assure access to affordable coverage, the steady decline in employer coverage and steady rise in the uninsured—and the human suffering it brings—would likely continue.

JOB STABILITY AND THE SOCIAL COMPACT

Much of what people can expect in the way of resources in retirement depends on how long and where they have worked. DB pensions, for example, particularly benefit long-term workers because they are based on tenure and on some percentage of final pay, which typically increases with age. Because they are age neutral, DC plans do not inherently reward long-tenured workers. Nonetheless, regardless of the type of plan, the longer someone works, the longer contributions can be made—often on rising salaries—and the longer investments have to grow.

Many economists, public policy officials, and opinion leaders have come to the conclusion that the “old” compact that promised job security to dedicated workers is dead.¹¹⁰ They assert that the heyday of job security was in the 1950s, 1960s, and even up to the early 1970s—a time when, some say, there was extensive long-term (i.e., stable and near-lifetime) employment in the United States.¹¹¹ The old social compact, according to other experts, has given way to the new realities of global competition. Layoffs spread in response to that competition and, in time, undermined job security. Many believe that by the 1990s, the acceptance of this deterioration of the workplace and wholesale layoffs was complete and an integral part of the American economic landscape¹¹²—and that employers no longer had to reward employees’ loyalty to the firm with reciprocal loyalty and employment security. According to this perspective, employee skills are instead

rewarded only as they are valued by the current labor market. There is also some evidence that employer commitments to long-term employment never covered more than a small percentage of the workforce.¹¹³

Declining job tenure is often posited as a main indicator of the shift away from the old social compact. Several attempts to confirm that company downsizing during the 1980s produced a reduction in job tenure found instead that, throughout the 1980s, there was little change in the length of time an employee remained with a company.¹¹⁴ More recent data from the early 1990s show a major drop in job tenure among more experienced workers (mainly men), which has been partially offset by gains in job stability for short-tenured workers at the beginning of their work lives.¹¹⁵

Different patterns of tenure have characterized different subgroups of the labor force. For example, from 1983 to 2006, long tenure (e.g., 10 or more years with an employer) fell among men and increased among women (figure 2-5). Although the rate for men had risen somewhat by 2008, the percentage with 10 or more years with an employer was still well below what it had been in 1983.¹¹⁶ Perhaps most notably, there has been a marked decline in job tenure¹¹⁷ for men between the ages of 45 and 54 and 55 and 64 (figure 2-6), although these figures had also risen by 2008, perhaps as a result of more older workers pushing back the date of retirement. How the recession that began in December 2007 affects tenure data remains to be seen.

Another measure of employment stability is the job retention rate, or continued employment in the same position over a specified period of time. Analysis of data from 1983 to 1995 shows falling retention rates over time for workers with medium or long tenure on the job.¹¹⁸ Although this indicates a weakening or “loosening” of ties between employers and employees, retention rates were nonetheless found to

My View

Dallas L. Salisbury

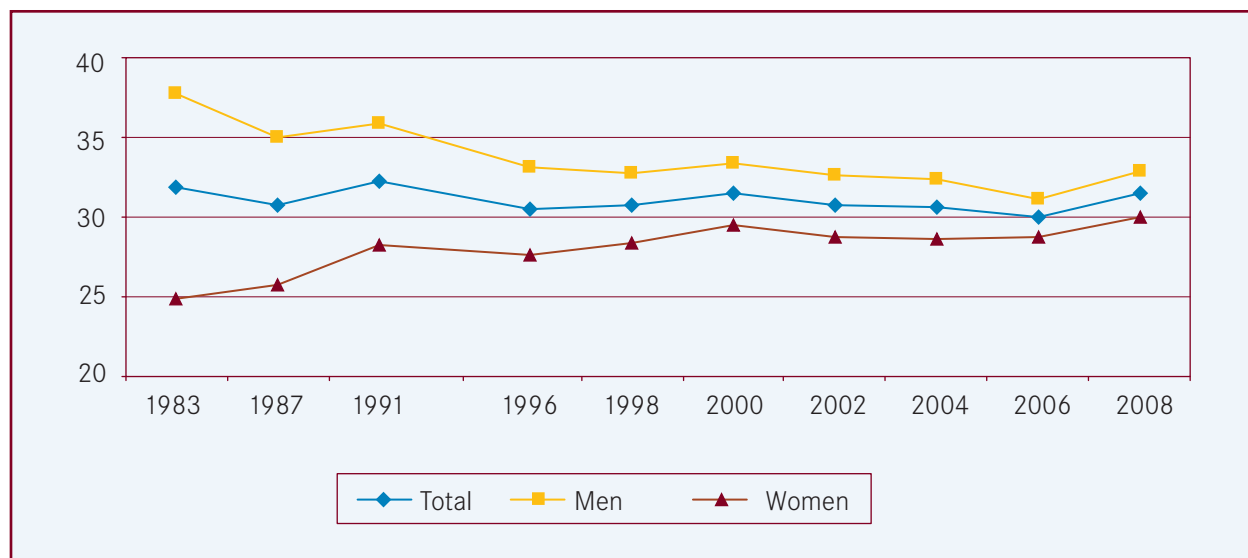
Chief Executive Officer, Employee Benefit Research Institute

A basic social compact or social contract has existed for decades for the majority of workers in the United States. For the employer, it has been to provide compensation required by a combination of law and the market: what must be provided in order to (a) obey the law and (b) fill the positions I need filled to accomplish the work that needs to be accomplished. In return, the employee both promises, and is expected, to complete the required level of work, at the required level of quality, in an acceptable period of time. Different markets and circumstances can then add many items to this basic contract. The most common factors in the past have been union status (when workers have organized as a collective, in order to bargain together, they have achieved richer wage and benefit packages than workers who have not done so); size of employer (the larger the employer, the richer the relative wage and benefit package in a given market segment); industry (government employers and price-regulated industries have generally been able to pass on costs to taxpayers/customers and have been able to provide richer wage and benefit packages; manufacturing firms have generally had better packages than service firms; high-profit-margin employers had better packages than low margin employers); relative industry position (monopolies had the best packages while those with a tremendous amount of local, national, and global competition generally the worst); and education level of the workforce (the more highly skilled and educated and the harder to replace the workforce is, the better the wage and benefit packages). This basic social contract has also generally held that as long as the organization needs workers, the employee is meeting the terms, and the employer can still make its desired profit, then the workers will be retained.

Seniority-based pay was also historically part of the social contract, and in spite of a substantial movement to incentive-based compensation and some large firms following the Jack Welch rule of terminating the bottom 10 percent of performers each year, no matter how good they are, seniority-based pay still dominates the economy. Following WWII, the social contract for union workers, most large firms and governments, and highly profitable professionally staffed small employers expanded to include health insurance, retirement plans, and other benefits. At the height of this contract, about 40 percent of workers were in a retirement plan that promised those who reached a “normal retirement age” a pension check for life. About 70 percent were provided with health insurance that was at least partly paid for by the employer, and nearly 30 percent were promised health insurance in retirement. Today, the number promised that pension is heading toward 20 percent; health insurance for workers 60 percent; and retiree health insurance 15 percent. The dominant form of retirement program is increasingly an individual account plan that is contributed to by both the worker and the employer. Between 40 percent and 50 percent of workers have had no work-tied retirement program other than Social Security at any time in our nation’s history. Thus, the basic social contract was and is cash compensation for work performed, with the exception being benefits on top of social insurance. Between 25 percent and 32 percent of retirees have benefited in recent decades from the fuller social contract, with that percentage in decline today.

The United States workforce has always been highly mobile, with median job tenure of under four years since WWII. The oldest segment of the labor force, those 55 to 64, had median tenure of about 10 years during the fifties, sixties, and seventies, before moving up to about 15 years from the late seventies to the early nineties, and then moving back to the norm of 10 years in the late nineties and the early 2000s. The romantic notion of retirement with a gold watch and a pension has been just that—romantic. Less than a third of workers ever spent 25 years or more with one employer—far fewer than that in the private sector—and that number is in decline today. Thus, the traditional social contract of cash compensation, legally required social insurance, and benefits that vary with circumstances of the market is likely to continue to apply to the vast majority of the labor force in the decades ahead, as it has in the past.

Figure 2-5. Percentage of Wage and Salary Workers Ages 25+ with 10 or More Years of Tenure with Current Employer by Sex, 1983–2008



U.S. Department of Labor, Bureau of Labor Statistics, “Employee Tenure in 2004,” *News*, USDL 04-1829 (September 21, 2004), and “Employee Tenure in 2008,” *News*, USDL 08-1344 (September 26, 2008).

be quite high (e.g., almost 80 percent for men with 9 to 15 years of tenure), leading to the conclusion that, “on balance attachment remains strong.”¹¹⁹

The increased use of temporary workers has been suggested as a measure of declining tenure.¹²⁰ In addition, it has been noted that the growth of temporary employment has been concentrated in large companies characterized by long-term employment relationships.¹²¹ Increased temporary employment is not necessarily proof of a decrease in long-term employment relationships and highly stable jobs, according to some researchers, who observe that, although the percentage of workers in contingent situations¹²² may be as high as 25 to 30 percent, only about 2 percent of the labor force are temporary employees.

THE PUBLIC COMPACT: WHEN THE PRIVATE COMPACT COMES UP SHORT

No overview of the social compact—the shape it took and how it has evolved—would be complete without a discussion of the integral role of *public* programs in creating a framework of economic protection for Americans. The American social welfare system is a shared, public-private enterprise.

As the *Leave it to Beaver* model of economic security has become, according to some, less viable and labor unions are in decline,¹²³ the need for a well-developed social safety net—an efficient and equitable mechanism for spreading the risks of insecure jobs, insecure retirements, and insecure access to health care—is more important than ever.

Social Security is the cornerstone of the public social welfare system, providing a fundamental guarantee of income in retirement, supplemented by income protections for workers who become disabled (the Social Security Disability Insurance program), health care protections for the elderly and people with disabilities (Medicare), and programs to provide a cushion for the unemployed (unemployment insurance) and those injured at work (workers' compensation).

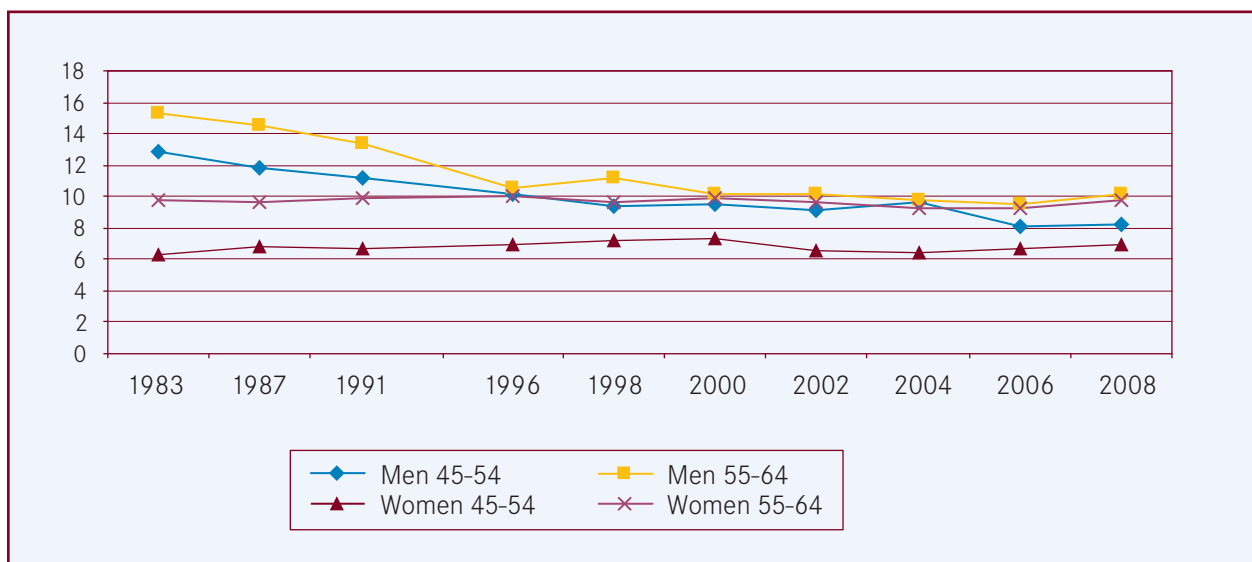
Many tens of millions of American workers lack access to well-paying jobs and employer-provided benefits. Millions of others have access to good jobs but cannot count on the jobs continuing until retirement. Employers have been scaling back, even terminating benefits, and/or requiring employees to pay more for their benefits. A sharp decline in the job tenure of middle-age men (ages 45 to 54 and

ages 55 to 64) (figure 2-6) put the financial security and benefits of these men and their families at risk. A small and shrinking proportion of the workforce belongs to a union. Much of working America is thus likely to depend heavily on the public social compact in retirement.

In his June 1934 address to the Congress, President Franklin D. Roosevelt (FDR) described his vision of the social compact:

The complexities of great communities and of organized industry make less real these simple [family and community] means of security. Therefore, we are compelled to employ the active interest of the Nation as a whole through government in order to encourage a greater security for each individual who composes it.¹²⁴

Figure 2-6. Median Years of Tenure with Current Employer for Wage and Salary Workers by Age and Sex, 1983–2008



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure in 2004," *News*, USDL 04-1829 (September 21, 2004), and "Employee Tenure in 2008," *News*, USDL 08-1344 (September 26, 2008).

My View

Ben Stein

Economist, writer, actor, and commentator. He writes a column for *The New York Times* and for *Yahoo!Finance*.

Time has a way of making the facts get covered with the same kind of gel Hollywood uses on glamour lenses to enhance the looks of fading stars. Something vaguely like that may have happened in terms of our memories of a “social compact” or “social contract” between employers and workers.

We have a misty notion that decades ago, employers took care of workers and paid them well and gave them excellent benefits and pensions.

The reality is that for most of industrial and preindustrial life, the owners of the means of production exploited their workers as much as possible. True, the workers were still better off than if they were toiling in a muddy farmyard, but they were paid as little as their bosses could get away with and worked as hard as was bearable.

The proof of this, if any were needed, was the wild violence of labor-management relations until recently. Bloody strikes, massacres, destruction of property, crippled workers were standard in worker actions up until the 1930s and persisted in smaller ways until the 1950s.

This is all gone now. A strike with violence is unheard of. This may be due to the demoralization of the union movement, but it is also explained by far better treatment of workers and—far more important—far better working conditions in white collar and automated assembly line jobs, and fantastically higher pay in dangerous, dirty jobs, like mining.

However, this does not mean management has opened its bleeding hearts to the workers. Severely cut pension plans, stagnant average hourly pay (although to be sure, this measurement is distorted by the presence of fringe benefits, which, if counted properly, would make hourly pay higher), and layoffs and buyouts attest to the sad fact that for many employers, human employees are simply the most easily varied factor input of production. Stupendously rising executive pay even as profits skyrocket and workers are desperately pinched—these too are signs that whatever imaginary social compact is supposed to exist is a tradition more honored in the breach than in the observance.

Was there ever a golden era of the social compact or contract between employers and employees? Possibly there was such an idyll in the 1950s and 1960s when the big American car makers and steel companies were churning out profits and workers got pay they were happy with (at least they were happy with it until the next labor negotiation came up). Possibly there was another such happy time in the Silicon Valley when investor money fueled an era of wine and roses in the high-tech sector.

But these are in the past. Executives and owners have only one real goal now: not to serve the customer, not to be friends with the workers, certainly not to help the shareholders. Now, the goal of today’s executive is to get as rich as he can as fast as he can, and devil take the hindmost. The simple measure of this is that the ratio of CEO pay to worker pay has risen by at least five times in the past 50 years—and maybe ten times.

This does not make for any kind of happy social compact. There is no sign that it’s getting better, and a lot of data that executive behavior is getting ever worse and more irresponsible to any constituency except themselves. Freud would probably say this is the only constituency anyone ever truly has, and maybe he’s right. Such selfishness does not lend itself to anyone’s idea of a mutually rewarding social contract or compact. Would the workers behave differently if they were magically in the executive suite? The history of socialist movements is not encouraging. Maybe we’re better off as we are. At least no one is getting shot.

The crash of the stock market in 1929 triggered the Great Depression, during which businesses closed, banks failed, millions were unemployed, and one-third to one-half of older people were unable to support themselves.^{125, 126} Although numerous solutions were proposed, the old solutions could not solve the new problems.¹²⁷

Social Security

When FDR was elected president in 1932, he thought that reviving the economy and bringing relief to Americans required a different solution. The New Deal was revolutionary because FDR did not look back to formalized welfare or voluntary charity to cure the economic ills of the nation. Nor did he take a wait-and-see stance. The New Deal involved action “to promote the general welfare ... and to provide for that security upon which welfare depends.”¹²⁸ Social Security was the cornerstone of the New Deal. The Social Security Act of 1935 laid the foundation for this country’s social insurance system. It encompassed not only a retirement program but also the first national unemployment compensation program and aid to the states for various health and welfare programs such as state and local public health services, old age assistance, and the aid to dependent children program. Social Security Disability Insurance (SSDI) was added in 1956 for permanently and totally disabled workers ages 50 to 64 and for disabled adult children of retired or deceased workers whose disability began before age 18.¹²⁹ By 1960, SSDI had been extended to cover disabled workers of all ages and their dependents.¹³⁰

The part of the program we think of today as Social Security—Old Age, Survivors, and Disability Insurance (OASDI)—was designed as social insurance. Workers and their employers contribute (through the payroll tax) a fixed percentage of a

specified, annually adjusted level of wages; the fact that both contribute may be viewed as part of the social compact.

Social Security not only protects a group of people against defined risks, it also seeks to meet the social ideals of adequacy and equity. Adequacy refers to meeting the basic needs of the people it was designed to protect, while equity refers to the relationship between contributions made and benefits received, the principle being that workers who earn more and contribute more should receive more. Although workers with higher earnings (up to a maximum) receive larger Social Security benefits than those with lower earnings, the program’s progressive benefit formula provides proportionally larger benefits for low-wage workers and their families, which promotes benefit adequacy.¹³¹

Simply stated, Social Security deals with the long-run problem of economic security for older people through a system in which employees and their employers contribute to workers’ future retirement. Although the specific provisions of the Social Security program have often been adjusted,¹³² the fact is that workers and their employers pay into the program with the assurance from their government that they will receive promised benefits when or if the events they are insured against occur. This compact is also intergenerational. The contributions of current workers pay for current beneficiaries, with the assumption that the same will be done for the younger workers upon retirement. Should a worker die or become disabled, the public compact also applies to the worker’s family through survivor and disability benefits. Although Social Security was not designed to provide sufficient retirement income to maintain preretirement living standards, it has become the predominant source of income for most retirees and their families.

Medicare, Workers' Compensation, and Unemployment Insurance

The public social compact extends beyond retirement income and disability insurance to health insurance for the aged, workers' compensation, and unemployment compensation. Enhancing the economic security of older Americans is Medicare, enacted as part of the Social Security Amendments of 1965, which established a two-part insurance program of hospital and related benefits (Part A, Hospital Insurance or HI) and doctor benefits (Part B, Supplementary Medical Insurance or SMI).¹³³

HI is financed by payroll taxes and some general revenues, and SMI is paid for through beneficiary premiums and general revenues. Prescription drug coverage (Part D), first offered in 2006, is also paid for through general revenues and beneficiary premiums. Before Medicare, slightly more than half of older Americans lacked health insurance coverage; today, almost everyone age 65 or older is covered by Medicare. Soaring costs and a growing older population, however, have had an adverse impact on the solvency of the program. Future cohorts of older Americans will likely pay more for and get less from Medicare than today's retirees.

Workers' compensation (WC) provides medical benefits and cash payments to employees who are injured on the job or who contract a work-related illness. It includes death and funeral benefits to the survivors of those fatally injured on the job. WC programs, which are state-designed and managed, are financed almost entirely by employers. Provisions such as coverage, benefit amounts, and length of time for which benefits are paid vary from state to state. WC is a large and important program, and "it is surpassed in size only by Social Security Disability Insurance" as a source of support for disabled workers.¹³⁴

Unemployment insurance (UI) is a federal-state program created in 1935 as part of the original Social Security Act to serve as a safety net for workers who become unemployed through no fault of their own. Workers who lose their jobs due to layoffs or dislocation, for example, may be eligible for temporary financial assistance to help tide them over while they look for work.

None of the public programs meets all of the income security needs of individuals who are unable to work. Social Security retirement benefits replace only a portion of preretirement earnings; SSDI's stringent eligibility criteria protect only the most seriously disabled. Although the National Academy of Social Insurance estimates that about 96 or 97 percent of all wage and salary workers are covered by UI, not all covered workers collect UI benefits when they become unemployed.¹³⁵ Eligibility rules vary by state, and many unemployed workers are excluded from the program, as are the self-employed. Many who do collect UI benefits exhaust them before finding work.

When he signed the Social Security Act in 1935, President Roosevelt observed that "we can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life," but the welfare programs that make up the public social compact do continue to "give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age."¹³⁶ Given the changes in employer-provided benefits and the dramatic shift in risk to employees, many workers well into the future are going to depend on the public compact for their economic security.

The question posed in the title to this chapter is a provocative one. Was there a golden age of broadly shared economic prosperity that has now ended? Has the old social compact been so thoroughly eroded

that we can safely say it no longer exists? The trends highlighted above suggest that the implicit social contract that protected workers from economic risk has, indeed, eroded in important ways. There can be no doubt that many highly educated and highly skilled workers are economically well off and, in some ways, better off today than generations past. But it is safe to say that for large segments of the workforce, jobs are less stable than they once were,

and the protections employers once provided are less secure. Employees are now less well protected from the risks of unstable market demand for goods and services and are increasingly being asked to take more responsibility and absorb more of the risk for health and retirement security. In the next chapter, we report on how workers and employers perceive these changes and begin to draw out their views about what the future might bring.

3

Employers' and Employees' Views of the Social Compact

EXAMINING THE SOCIAL COMPACT

To examine the employer-employee relationship as it is understood by both parties and as it is evolving, GfK Roper Public Affairs conducted telephone interviews in the summer of 2006 with randomly selected samples of workers, CFOs, and HR directors in U.S. firms with 20 or more employees. Interviews were completed with 1,500 employees ages 25 to 70, 292 CFOs, and 390 HR directors. In addition, a small (n = 66) random sample of chief executive officers (CEOs) was interviewed to ascertain if their responses differ substantially from those of CFOs and HR directors. (CFOs and HR directors tend to be more accessible than CEOs and thus often are the respondents in many surveys of “employers.”) The results of this survey form the basis of chapter 3.

The employees, CFOs, and HR directors were from different firms.

The terms “employee” and “worker” are used interchangeably when discussing the respondents in the employee survey.

Unless otherwise noted, all differences by demographic or other independent variables discussed in this chapter—e.g., age, type of employer, size of employer, or hours worked—for a specific sample (employee or employer) are statistically significant at the .05 level or better. With the exception of sex and some job responsibilities, almost none of the differences between CFOs and HR directors were statistically significant. Thus, the two samples were combined and are referred to as “employers.”

A detailed description of the methodology can be found in appendix A.

EXPECTATIONS AND PERCEIVED RESPONSIBILITIES: NOT SO FAR APART

In this “new social compact” study, workers and employers were asked their views on the relationships that might comprise a social compact. It is doubtful that the words “social compact” or “social contract” come up very often in everyday conversation. Nor is it likely that many people sit around chatting about employer and employee responsibilities. Yet the fraying or unraveling of the compact is a frequent topic of newspaper articles, research,

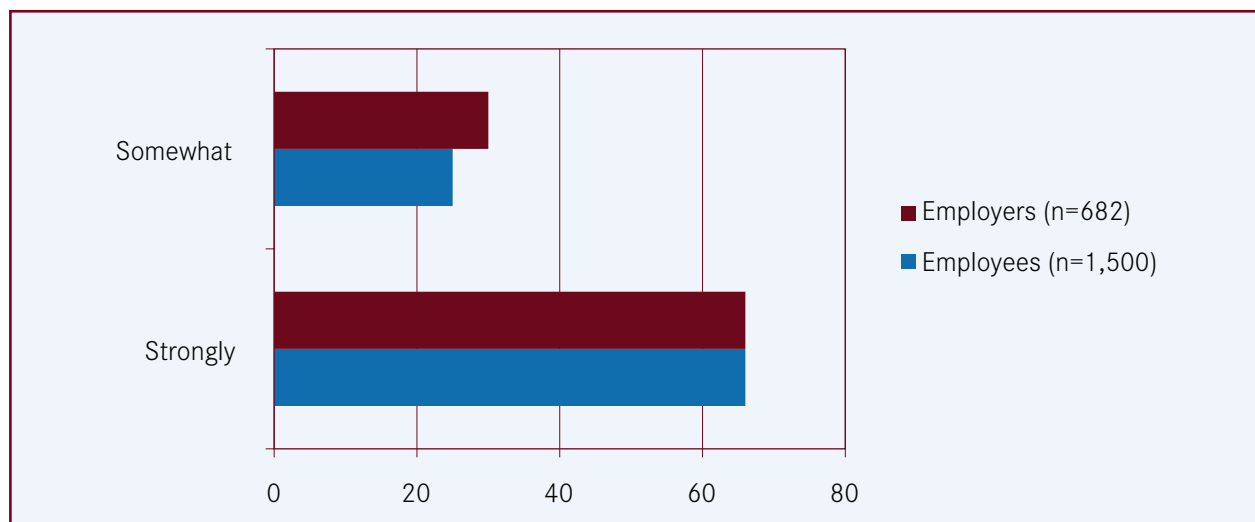
and policy reports. Moreover, workers do, or should, worry about developments such as the rising cost of health insurance premiums, cutbacks in retiree health benefits, and changes to employer-provided pension plans—benefits typically considered to be key components of the social compact. However, it is not clear from the AARP Social Compact Study that workers are troubled or even believe that they are affected by what many observers see as significant erosion in employers’ responsibilities or commitment to workers.

Because the term “social compact” or “social contract” likely has little meaning for most people, the survey introduced the notion of a compact somewhat indirectly, without inquiring specifically if respondents knew about or believed in the existence of a social compact/contract. It asked rather about elements of what might be thought of as a social

compact—mutual expectations and responsibilities—but did not explicitly state that these elements were commonly thought of as social compact/contract: *Recently, some people have talked about the idea of a social contract or compact between employers and workers. [Because some people may be more familiar with one term or the other, reference was made to both a contract and compact.] Do you agree or disagree that employers and workers in the United States have responsibilities to each other and expectations of each other?*²¹³⁷

Regardless of whether employers and employees saw any mutual expectations and responsibilities as part of a social compact, they overwhelmingly agreed—and generally strongly—that they have expectations of and responsibilities to one another (figure 3-1). Differences between employers and employees were modest.¹³⁸

Figure 3-1. Employer and Worker Responsibilities to and Expectations of One Another
(percent agreeing)



Recently, some people have talked about the idea of a social contract or compact between employers and workers. Do you agree or disagree that employers and workers in the United States have responsibilities to each other and expectations of each other?

Source: AARP Social Compact Study.

Not only did employers and employees agree that they have responsibilities to and expectations of one another, for the most part they saw those responsibilities and expectations in the same light (table 3-1). In response to an open-ended question asking workers and employers to name the expectations that they believe employers have of their employees, “doing a good job/doing the job one is paid to do”—in other words providing value for the wages paid—topped the lists of both employers and employees. Nearly 60 percent of employers and employees mentioned something related to doing a good job or the job one is paid to do. This is followed at some distance by several attributes similar to or necessary to getting the job done: “being honest/giving an honest day’s work,” “being reliable/dependable,” and “showing up on time.” None of these observations should come as a surprise; employers expect their employees to do what they need to do to get the job done that they are being paid for, and that includes being reliable and showing up on time. Employees concur.

When it comes to the expectations that workers have of their employers, fair compensation ranked first on everyone’s list (table 3-2), although employees cited it less frequently than employers. Benefits were an expectation mentioned by substantially fewer employees and employers, but it seems reasonable to assume that some employers and employees had benefits in mind when they mentioned fair compensation. Being treated fairly was cited by about one in four workers and three in ten employers. Job security/stability was rarely mentioned.

THE EMPLOYER AS BENEFIT PROVIDER: WHAT’S IMPORTANT?

Employers provide a variety of benefits to their workers, some of which are integral to employee and family well-being during and after the work years. Some are also costly. AARP’s Social Compact Study focused on two particularly expensive benefits: health insurance and pensions. In addition, a

Table 3-1. Expectations That Employers Have of Their Workers
(percent mentioning)*

	Employees (n=1,500)	Employers (n=682)
Do a good job/do the job one is paid to do	58	56
Be honest/give an honest day’s work	19	29
Be reliable/dependable	18	22
Show up on time	17	15
Commitment/loyalty	10	15
Be ethical	*	13

What expectations, if any, do you think employers have of their workers? (open ended)

*Mentioned by fewer than 10 percent.

Source: AARP Social Compact Study.

Table 3-2. Expectations That Workers Have of Their Employers
(percent mentioning)*

	Employees (n=1,500)	Employers (n=682)
Fair compensation	43	59
Benefits	25	21
To be treated fairly	24	29
Safety	10	16
Pleasant/comfortable work environment	*	10
Job security/stability	*	10

What expectations, if any, do you think workers have of their employers? (open ended)

*Mentioned by fewer than 10 percent.

Source: AARP Social Compact Study.

number of the survey questions dealt with employer-provided training. Workers cannot count on spending a lifetime with a single employer, so keeping skills honed is critical to remaining employable. Training to maintain or upgrade skills on one's current job is also increasingly required.

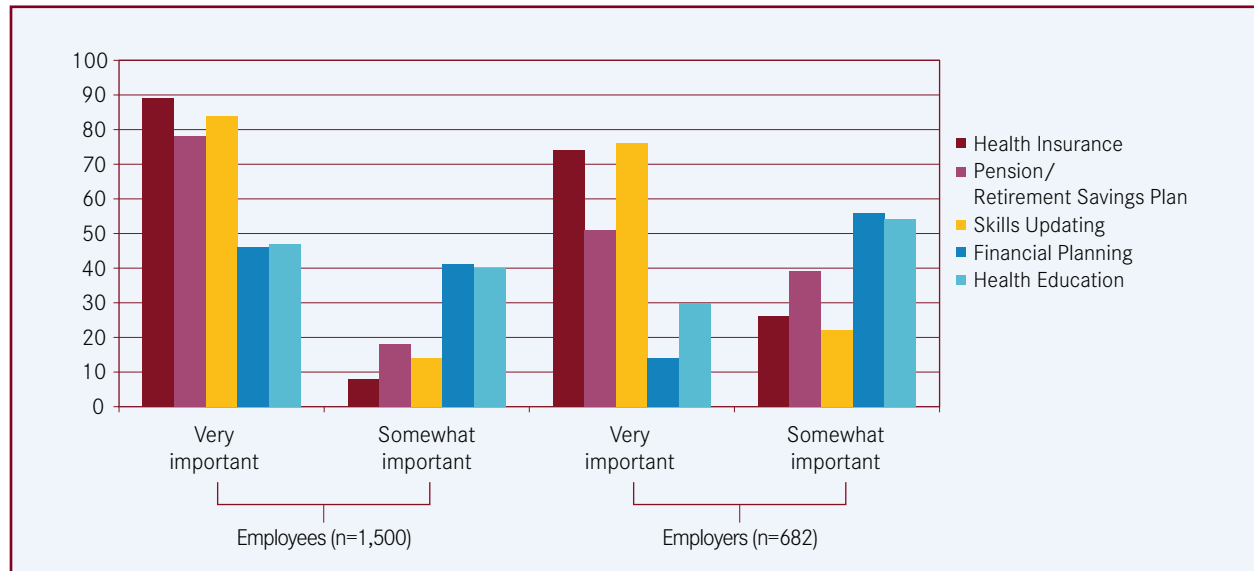
As employers shift more responsibility for retirement income security and health care to workers, employees' access to information and education that help them make responsible decisions about finances and health care becomes more important. In addition to probing about the availability of health insurance, pensions, and training, the survey asked if employers provided such information, which can aid in decisionmaking.

Specifically, employers and employees were first asked how important it is that employers provide a pension, health insurance, skills training, financial planning information, and education/information (figure 3-2). They were then asked which of the five benefits is the most important (figure 3-3).

Some benefits are understandably viewed as more important than others by both employers and employees, with workers somewhat more likely than employers to think that it is very important for employers to provide each of the benefits. A large majority of employees and employers said that it is very important for employers to provide health insurance. Despite the rising costs of health insurance, hardly anyone contended that it is *not* important for employers to offer this benefit, a finding that undoubtedly reflects the fact that in the United States today, few workers would have access to health insurance were it not for employers. The responses say nothing about whether anyone *likes* things this way.

As important as health insurance may be, helping employees keep skills up-to-date was very important to an even higher percentage of employers. Providing a pension plan was viewed as very important by substantially fewer of these employers, although almost all (9 out of 10) thought that doing so was at least somewhat important. Less importance

Figure 3-2. Importance to Employers and Employees of Providing Selected Benefits
(in percentages)



As I read each of the following items, please indicate whether you think it is very important, somewhat important, not too important, or not at all important for employers to play this role. How important do you think it is for employers to . . .

Provide a pension or retirement savings plan

Provide health insurance

Help workers keep their skills up-to-date

Provide financial planning information and education

Provide health education or wellness information

Source: AARP Social Compact Study.

was attached to the other two benefits—financial planning information and education or health education and wellness information, but again, the majority of employers thought that providing these benefits was at least somewhat important.

The importance of skills training to employers may have two bases. To succeed in business, employers must ensure that their workers have what it takes for the employer to remain competitive, and that requires updating the skills of their workers. However, employers may also have been thinking about the skills their workers would need to find jobs elsewhere in the event of downsizing or restructuring.

Employees were far more likely than the employer groups to attach high importance to all of the benefits. At least three-fourths of employees said that it is very important for employers to provide health insurance, help keep skills up-to-date, and provide a pension or retirement savings plan. Financial planning and health education/wellness information were less likely to be regarded as very important, but employees were nonetheless three times as likely as employers to say that it was very important for employers to provide financial planning information. They were also more likely to say the same about health education and wellness information.

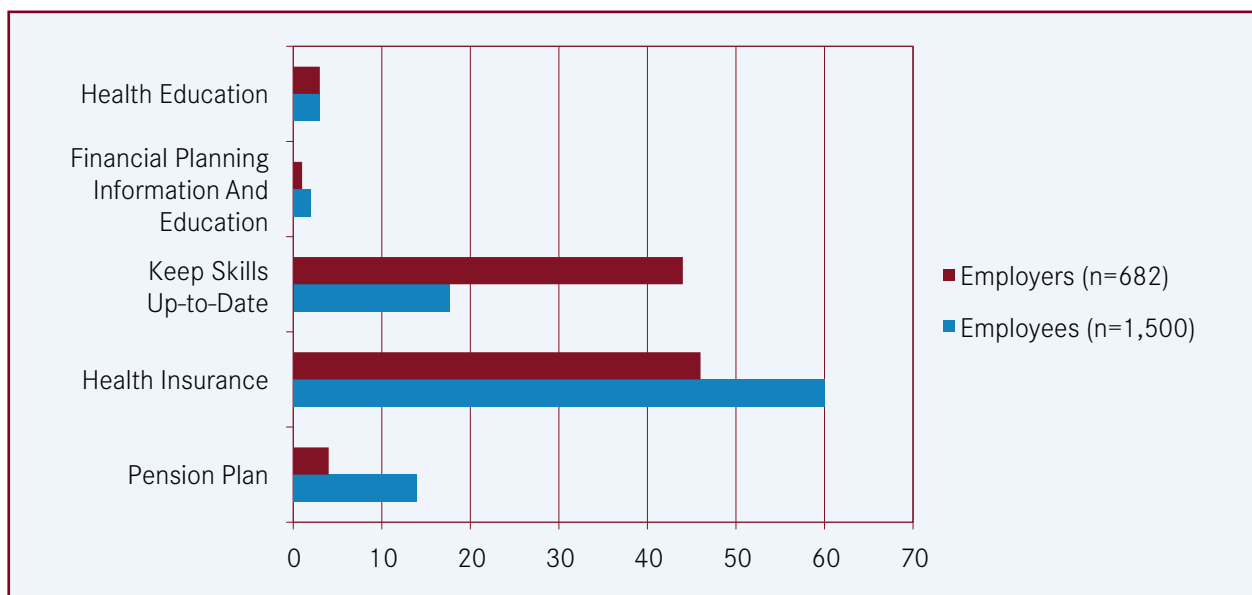
When asked to choose the most important benefit from among the five queried about, employees mentioned health insurance by a wide margin—60 percent vs. 18 percent for the next most important benefit (helping workers keep skills up-to date) (figure 3-3). Only one in seven workers (14 percent) saw providing pensions as the most important benefit role of an employer.

A few differences by sex were evident. Female employees were significantly more likely than their male counterparts to contend that it was very important to provide a pension or retirement savings plan (60 percent vs. 40 percent, respectively), health insurance (81 percent vs. 66 percent), and health education or wellness information (36 percent vs. 22 percent).

When it came to the most important benefit employers can provide, employers were more evenly divided between helping keep skills up-to-date and providing health insurance. Very few employers thought that providing pensions was the most important role for employers. And hardly anyone—employer or employee—ranked the provision of financial planning or health education and wellness programs as the most important.

But while benefits are understandably important to workers—which is why employers offer them—type of work rather than benefits or pay was more often reported as a major factor influencing employees' decision to take a job with their current employer (figure 3-4).

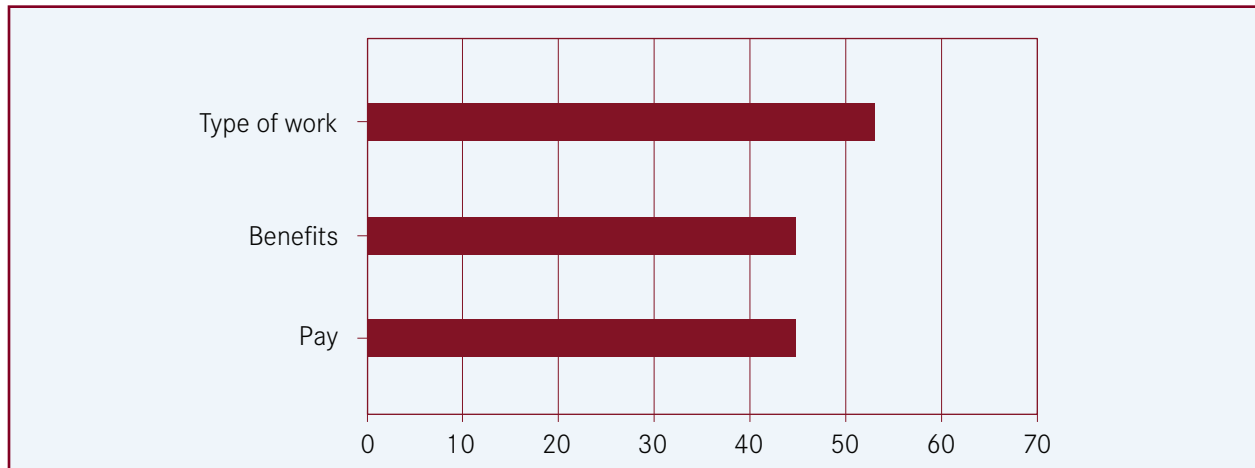
Figure 3-3. Employer and Employee Opinion of the Most Important Benefit
(in percentages)



And which of these employer roles do you think is the MOST important? (This was asked about the roles considered very important in the previous question.)

Source: AARP Social Compact Study.

Figure 3-4. Factors That Employees Cite as Having a Major Influence in Job Choice
(in percentages)



Please tell me how much each of the following factors influenced your decision to first take a job with your current employer . . .

Source: AARP Social Compact Study.

WHO IS RESPONSIBLE?

Although both employers and employees thought that it was important for employers to provide certain benefits, they did not see employers as having the only or even the most important role in doing that. Feelings about who should have the dominant role depended on the particular benefit, but employers and employees showed remarkable consistency in their thoughts about who it should be—employers, government, or workers themselves (table 3-3). For example, nearly 80 percent of employers and employees maintained that employers should have the largest role in paying for training and education to keep skills up-to-date, a finding that makes a great deal of sense. Presumably, employers are more knowledgeable than anyone else about the skills and abilities their employees need.

A fairly close second was health insurance for workers while they are employed; about three-fourths of employers and employees felt that paying for health insurance was a role primarily for the employer. This response may come as a surprise to some, in view of the rising costs of health care, the concerns employers have about those costs, and the aging of the workforce.

Health benefits for retirees are another matter. Far fewer employers or employees felt that employers should have the largest role in paying for this benefit, although workers were about twice as likely as employers to contend that employers should (about one-third of workers vs. one-sixth of employers).

Primary responsibility, or the largest role, for paying for pensions belonged to the employer in the eyes of

Table 3-3. Employers and Employees Weigh In on Who Should Have the Largest Role Paying for Benefits
(in percentages)

	Employees (n=1,500)	Employers (n=682)
Health Insurance for Workers		
Government	15	13
Employers	76	76
Workers	8	9
Health Insurance for Retirees		
Government	53	55
Employers	31	16
Workers	12	25
Pensions or Retirement Savings		
Government	16	8
Employers	55	45
Workers	27	44
Training and Education		
Government	7	2
Employers	81	82
Workers	11	14
Financial Planning Information		
Government	20	9
Employers	38	34
Workers	40	56
Health Education/Wellness Information		
Government	34	19
Employers	38	45
Workers	26	34

As I read each of the following benefits, please indicate whether you think government, employers, or workers should have the largest role in paying for the benefit.

Source: AARP Social Compact Study.

more than half of employees (55 percent) but fewer than half of employers (45 percent). Employers were just about as likely (44 percent) to say that workers themselves should have the largest role paying for this benefit; there were certainly more likely than workers to say this.

With the exception of retiree health benefits, government got off lightly as far as the benefits discussed in this section are concerned. Employees tended to mention government more than employers, but aside from retiree health benefits, those who tapped government for the largest role were in the minority. With the exception of financial planning (a benefit for which workers were equally likely to assign primary responsibility to themselves as they were to employers), workers generally assigned the largest role for providing these benefits to someone other than themselves—employers or government.

There was less agreement between workers and employers about who should have the largest role in paying for financial planning information or health education and wellness information—employees tended to point to a greater role for government and less for workers than employers. Overall, the large majority of workers did not see themselves as having primary responsibility for paying for the big-ticket items of health insurance, pensions, or even training.

Age had some impact on opinions about who should have the largest role paying for benefits. Workers under age 50 were significantly more likely than those age 50 or older to say that government should have the largest role paying for health care for workers, but it was nonetheless a minority of both age groups who maintained this (16 percent of those under age 50 vs. 11 percent of those age 50 or older). Younger workers also placed significantly more responsibility on government for retiree health benefits (58 percent of those under 50 vs. 44 percent of those 50-plus) and correspondingly less on employers (28 percent vs. 38 percent). In addition, younger workers tended to see more of a role for government in providing

financial planning information and education (22 percent of workers under age 50 vs. 14 percent of those age 50 or older). Younger workers pointed more to government than older workers did for paying for health education or wellness information (38 percent vs. 28 percent); older workers, in contrast, were more likely than younger workers to see the largest role in paying for this benefit as belonging to the employer (46 percent vs. 34 percent).¹³⁹ Although there were some differences by sex among workers, no consistent pattern emerged.

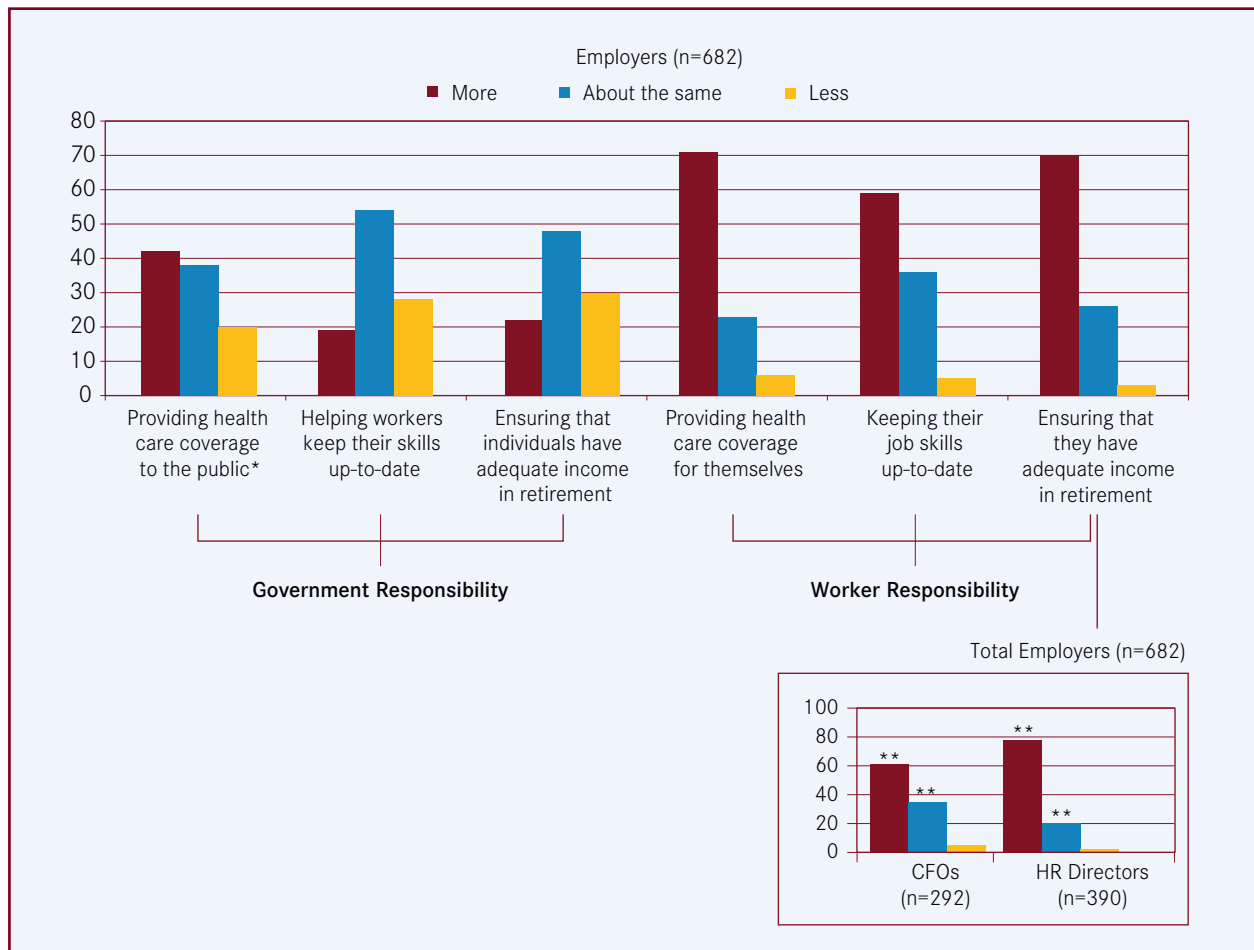
MORE WORKER RESPONSIBILITY FOR BENEFITS?

If the employers were right, workers can anticipate bearing more of the burden for employee benefits in the future than they do today (figure 3-5). The majority of employers contended that over the next five years, workers would have more responsibility for providing health care coverage for themselves, ensuring that they have adequate income in retirement, and even keeping their skills up-to-date. Very few offered hope for less responsibility. At the same time, of course, the burden on employers could increase as well.

CFOs and HR directors tended to see things the same way when it came to changes in responsibility for employee benefits. The one exception was with respect to workers' responsibility for ensuring the adequacy of their retirement income. HR directors were significantly more likely than CFOs to say that they expect workers to have more responsibility (78 percent vs. 61 percent, respectively). CFOs, on the other hand, were significantly more likely to think that worker responsibility would remain about the same (35 percent vs. 20 percent) (Figure 3-5).

Government's responsibility was not expected to increase as much as that of workers. About one-fifth of employers anticipated that government will have more responsibility for ensuring that

Figure 3-5. Employers See Workers Assuming More Responsibility for Their Benefits
(in percentages)



*The use of the word “public” here might automatically suggest a government role and may have influenced responses. Perhaps substituting “everyone” would have been a better choice.

**One of the very few statistically significant differences between CFOs and HR directors.

Over the next five years, compared to today, do you expect that [the federal government/workers] will have more, less, or about the same responsibility for [providing a specific benefit]?

Source: AARP Social Compact Study.

individuals have adequate retirement income (22 percent) and for helping workers keep their skills up-to-date (19 percent), but under one-third said that government would have less responsibility for both (30 percent contended this about ensuring

adequate income in retirement and 28 percent about keeping skills up to date). Many employers (42 percent), however, saw government assuming more responsibility for health care.

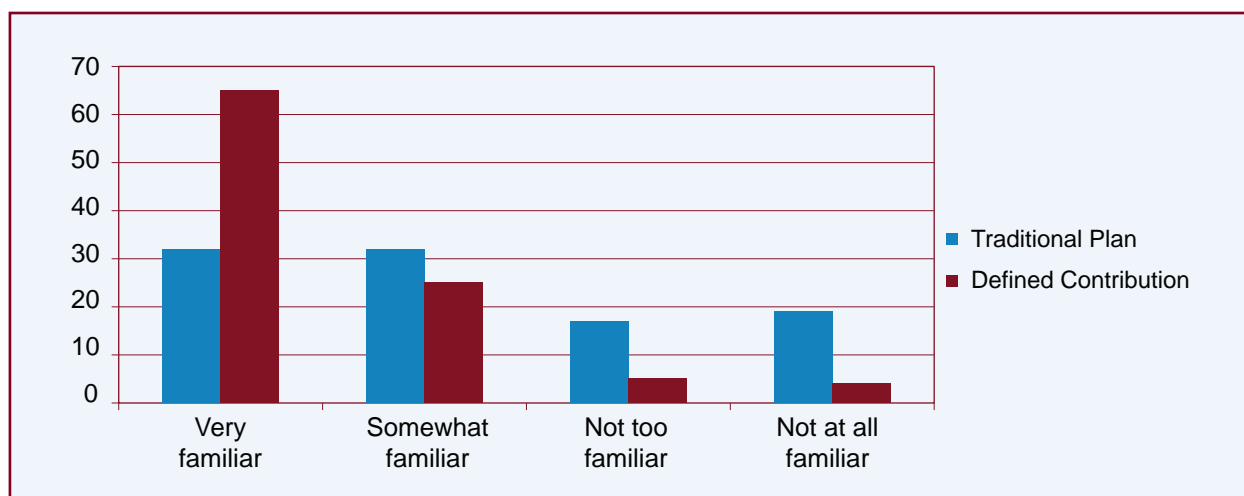
PENSION PREFERENCES

The expectation on the part of employers that workers will bear more responsibility for various benefits may be seen as an extension of what has been happening in recent years. One of the most notable changes has been the shift from DB pension plans to DC (e.g., 401(k)) plans. Although DB plans are not risk free (see chapter 2), workers in such plans are spared the need to make any decisions beyond, perhaps, whether to change jobs, what to do with vested accruals when they do change jobs, or when to retire. DC plan participants, on the other

hand, must decide where contributions should be invested and must manage their accounts. If their plans require employee contributions, as is the case for 401(k) plans, they are faced with deciding whether and how much to contribute (unless their plans have automatic enrollment).

Workers reported that they knew more about DC plans than DB plans. In fact, 65 percent said that they were “very familiar” with DC plans (such as a 401(k)), but only 32 percent were “very familiar” with DB plans (figure 3-6). Overall, nine out of ten workers were very or somewhat familiar with DC plans, while only six out of ten were very or somewhat

Figure 3-6. Employee Familiarity with Traditional (Defined Benefit) and Defined Contribution Pension Plans
(in percentages) (n=1,500)



A Traditional Pension Plan. This is a plan entirely funded by an employer. The employer decides on the investments and guarantees an annual amount to be paid through retirement. If you leave the employer or the employer goes out of business, you may lose some or all of your pension. How familiar are you with this type of plan?*

A Defined Contribution Plan such as a 401(k). This is a plan in which the worker has an individual investment account, decides on the investments, and contributes part of his or her salary over time. The employer may also contribute. What you receive in retirement depends on how your investments have changed over time. How familiar are you with this type of plan, the defined contribution plan such as a 401(k)?

* This question probably should have read “‘typically’ or ‘in most cases’ funded by an employer,” since a few private sector DB plans require employee contributions. Employee contributions are common in public sector plans, but this was a survey of private sector workers.

Source: AARP Social Compact Study.

familiar with DB plans. Workers were four times as likely to be unfamiliar (not too or not at all familiar) with DB plans as they were DC plans (36 percent vs. 9 percent).

Age was positively associated with plan knowledge. As would be expected, workers age 50 and older were significantly more likely than younger workers to be familiar (very or somewhat) with DB plans: 74 percent vs. 59 percent. Full-time workers were also more likely to be familiar with DB plans than part-time workers, but the differences were significant only when it came to being very familiar (33 percent vs. 23 percent).

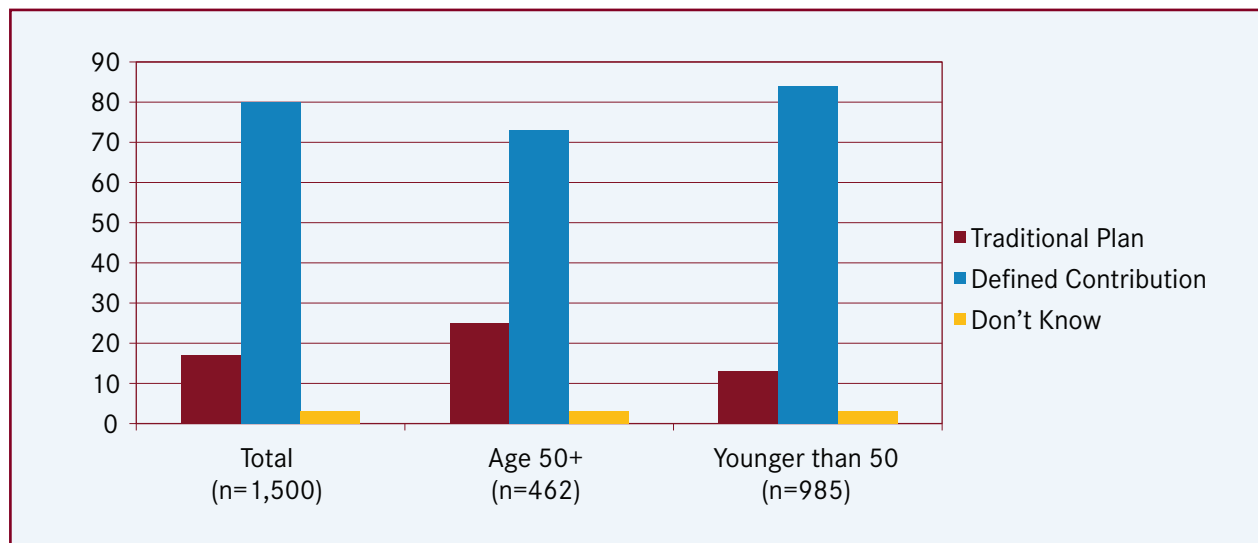
Almost everyone was familiar with DC plans, and differences between under-age-50 and age-50-plus employees were not significant. Full-time workers were significantly more familiar with DC plans than

were their part-time counterparts, with especially sharp differences between those saying they were very familiar (68 percent vs. 47 percent).

Workers with more than a high school education and those who were married are significantly more likely to be familiar with both types of plans than are those with a high school education or less or not married. Sex played a role only for the traditional plan, with 35 percent of men and 29 percent of women saying they were very familiar. However, men were also significantly more likely than women to say they were not at all familiar with DB plans (22 percent vs. 17 percent).

Not only were workers more familiar with DC plans, they preferred them—or did at the time of this survey—to traditional plans by a wide margin—80 percent vs. 17 percent (figure 3-7). Age made a

Figure 3-7. Employee Preference for Traditional (Defined Benefit) or Defined Contribution Pension Plan
(in percentages)



If you had to choose one of these two types of plans, which one would you prefer to have, a traditional pension plan or a defined contribution plan such as a 401(k)?

Age differences are significant at the .05 level.

Source: AARP Social Compact Study.

difference when it came to preference, but it was not as great a difference as one might expect: Workers 50 and older were significantly more likely than their younger counterparts to have said that, if given a choice, they would opt for a DB plan (25 percent vs. 13 percent), but even older workers generally preferred a DC plan to a traditional pension plan (73 percent vs. 25 percent).

One might also expect a worker’s familiarity with a particular pension plan to influence his or her preference for a particular plan. On the one hand, workers who know a great deal about DB plans—e.g., that there are no investment decisions to worry about

and a potential lifetime annuity upon retirement—might be more inclined to favor DB plans. On the other hand, workers who know how DC plans work might prefer to make their own decisions about where and how much to invest. Workers who were familiar with DC plans overwhelmingly favored them, but so did workers who said they were familiar with DB plans—nearly three-fourths of workers who were very familiar with DB plans actually preferred DC plans (table 3-4). Workers unfamiliar with DC plans also said that DC plans were the plan of choice. There is no obvious reason for such a response; perhaps these workers had heard about and been affected by reports of problems (e.g., underfunding, lack of

Table 3-4. Type of Pension Plan Preferred by Employees by Familiarity with Type of Plan
(n = 1,500)

Preferred plan	Very familiar (%)	Somewhat familiar (%)	Not too familiar (%)	Not at all familiar (%)
Familiarity with Traditional (DB) Pension Plans				
DB	23.5	14.8	11.1	13.4
DC	73.8	82.7	86.1	83.2
Don't know	2.7	2.5	2.8	3.4
	100.0	100.0	100.0	100.0
Familiarity with DC Plans				
DB	14.0	21.2	22.5	25.8
DC	83.7	76.2	66.2	71.2
Don't know	2.3	2.6	11.3	4.0
	100.0	100.0	100.0	100.0

How familiar are you with this type of plan, the traditional pension plan? How familiar are you with this type of plan, the defined contribution plan such as a 401(k)? If you had to choose one of these two types of plans, which one would you prefer to have, a traditional pension plan or a defined contribution plan such as a 401(k)?

Source: AARP Social Compact Study.

portability) with DB plans. Regardless of familiarity with the two types of plans, employees who preferred DB plans remained in the minority.

Of course, this survey was conducted before the market downturn resulted in plummeting 401(k) balances, which caused many preretirees to reevaluate their retirement plans and retirees to scale back their spending or consider returning to work.¹⁴⁰ Americans' enthusiasm for self-managed retirement accounts and the risks they now so clearly entail is likely more muted than it was when investment returns were generally positive.

WHAT EMPLOYERS OFFER IN THE WAY OF BENEFITS

Previous sections examined how employers and employees feel about various work-related benefits and who should assume the most substantial

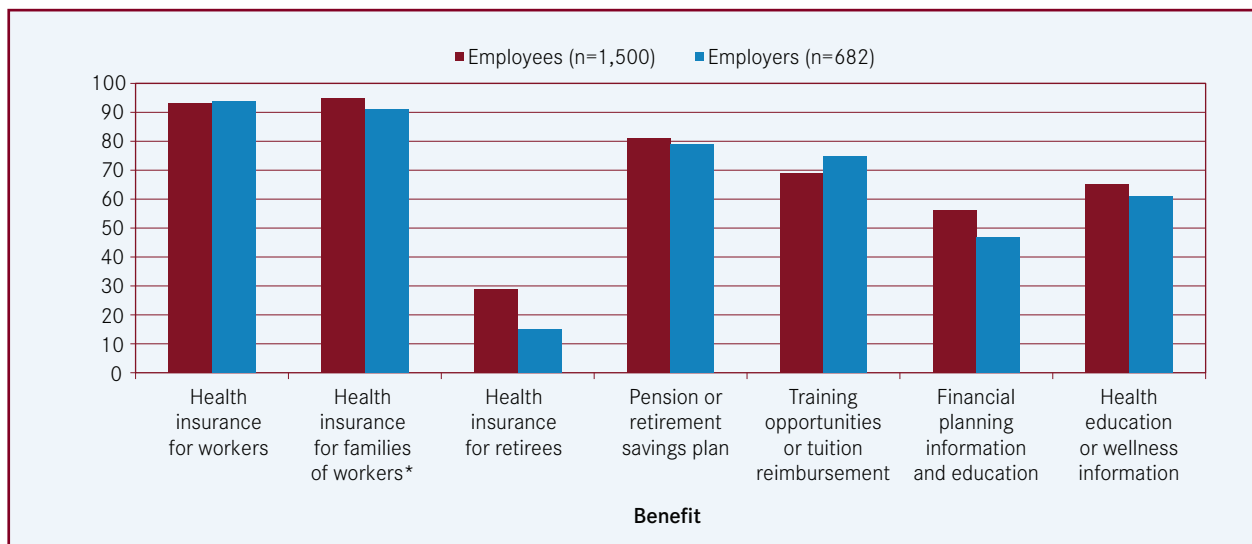
role in paying for them. This survey also collected information on the benefits that employers actually offer.

There is little that is surprising in figure 3-8, except, perhaps, the high percentages reporting that a pension or retirement savings plan was available. Other research indicates that 56 percent of wage and salary workers ages 21 to 64 worked for employers or unions that sponsored a retirement plan in 2006.¹⁴¹ That the AARP Social Compact Study excluded firms with fewer than 20 employees undoubtedly contributed to the higher percentage of workers in firms with pensions or retirement savings plans.

As other data show, DC plans were by far the most common offering (table 3-5).

It is less clear why employees were substantially more likely than employers to say that their employer offered retiree health insurance. It could be that the

Figure 3-8. Selected Benefits Offered by Employers
(in percentages)



Which of the following benefits, if any, does your employer/organization offer to its workers?

*Asked if employer offered health insurance to workers (n=1,400 for workers, 642 for employers).

Source: AARP Social Compact Study.

Table 3-5. Employer-Provided Pension Plan Coverage*
(in percentages)

Type of Plan	Employees with a Plan (n=1,208)	Employers with a Plan (n=537)
Traditional (DB) pension plan (not a cash balance or other hybrid)	34	14
DC plan such as a 401(k)	91	88
Cash balance or other hybrid plan	Not asked	5
Other pension or retirement savings plan	16	15

Which of the following types of pension or retirement savings plans does your employer/organization offer to its workers?

*Asked only if the employer offers a pension or retirement savings plan.

Source: AARP Social Compact Study.

differences reflected reality; however, it may also be that workers were misinformed. Younger workers and recent hires, for example, may simply not have been knowledgeable about what their employers offered; young workers, in particular, are not likely to be focused on benefits that they can receive only after decades on the job.

TERMINATING BENEFITS: MUCH PUBLICIZED BUT RELATIVELY RARE IN PRACTICE

Despite the impression that articles in the press may give, benefit termination was not very common, according to the employers in this study. If their companies were not offering a benefit at the time of the survey, they were for the most part unlikely to have offered it in the past—defined as in the last five years for employers—although the small sample size for some of the benefits underscores the need for caution in interpreting responses (table 3-6). Many employees had a much longer period of time—since they were first hired, which could have been many

years ago—to witness the disappearance of employee benefits. In addition, the sample of employees was substantially larger than the combined samples of CFOs or HR directors, yielding a more meaningful number of respondents answering some of these questions. One-fourth of the employees who lacked access to a pension or retirement savings plan (type of plan was not specified) reported that a plan was once offered. Other benefits were also reported as having once been available, but by smaller percentages of workers who did not have them at the time of the survey, e.g., training opportunities (22 percent of those who did not have training opportunities).¹⁴²

INCREASING THE COST OF EMPLOYEE BENEFITS TO WORKERS

Although most employers had not eliminated benefits, there had been changes to the benefits they offer employees. Sometimes the benefits had been enhanced (next section), but they had also been scaled back for newly hired or future workers. Most commonly, employees had been required to assume

Table 3-6. Benefits No Longer Offered to Employees
(in percentages)

Benefit	Employers	Employees
Health insurance for workers	38% (n = 40)	13% (n = 100)
Health insurance for families	Not asked	15% (n = 171)
Health insurance for retirees	1% (n = 579)	4%* (n = 1,041)
DC pension	8% (n = 208)	25%** (n = 292)
DB pension	2% (n = 604)	
Cash balance, other hybrid	1% (n = 654)	
Training/tuition assistance/reimbursement	Not asked	22% (n = 469)
Financial planning	Not asked	16% (n = 654)

At any time during the past five years, has your organization offered . . . ? (employers) or At any time since you were first hired has your employer ever offered . . . ? (employees)

Numbers in parentheses refer to the base on which the percentages were calculated, which were at times too small for significance testing.

*Thirty-eight percent of employees did not know.

**Workers were simply asked if the employer offered a pension or retirement savings plan. Type of plan was not specified.

Source: AARP Social Compact Study.

a greater share of the cost of benefits, notably health insurance.

Health Insurance

More than half of employers whose organizations offered health insurance reported that over the previous five years, their organization had increased

the share of health insurance costs paid by workers. Surprisingly, this was more likely to happen in firms with 100 or more workers than in firms with 20 to 499 workers (67 percent of firms with 100-499 employees and 73 percent with 500-999 vs. 51 percent with 20-99). However, the benefits themselves appeared to have been protected. Only 5 percent of employers with health benefits reported that their

company eliminated benefits for *some* workers over the previous five years. As reported earlier, relatively few companies offered health insurance to retirees, and few of those companies had offered retiree health insurance in the past. Still, about one in four employers who offered retiree health benefits (23 percent) said their organization had increased the share of retiree health insurance costs paid by current retirees. Some (17 percent) had also increased the share of retiree health insurance costs for future retirees.

Pensions or Retirement Savings Plans

Few employers reported other benefit adjustments that might have an adverse impact on the well-being of some or all workers.

Given the publicity over pension terminations and freezes, it comes as something of a surprise that almost none of the firms offering a traditional DB plan had eliminated those plans for newly hired workers within the previous five years. Nor had many companies converted DB plans to cash balance plans over the same period.

ENHANCED BENEFITS: MORE COMMON THAN ADVERTISED?

Although news reports may make it seem that employers are only cutting benefits or increasing employee cost-sharing, many workers reported that the generosity of their benefits had remained about the same or, in some instances, actually increased since they were first hired (table 3-7). Indeed, more than two in ten workers said that all the benefits asked about, except retiree health benefits, had been increased over the time that they had been with their current employer. Retiree health benefits were substantially less likely to have been enhanced according to workers (although one-fourth of them had no idea what might have happened to those

benefits, a finding not shown in table 3-7). Health benefits were more likely to have been reduced than pensions or retirement savings plans, training, or financial planning information. Relatively few workers, in fact, reported that pension benefits, training, and financial planning information benefits had become less generous.

For all benefits except training opportunities/tuition reimbursement, workers ages 50 and older were more likely than younger workers to report that benefits had increased, although the age difference for retiree health insurance was not significant. An obvious possible reason for the age differences is that older workers had had a longer period of time to observe *any* changes from their employers, and their employment histories had encompassed years when many employers were more paternalistic toward their employees. Of course, many of them had also been around long enough to see benefits decrease, but age differences in the percentages experiencing cuts were generally not significant.

WORKER SATISFACTION WITH PAY AND BENEFITS

So, after all, how satisfied were workers with their pay and benefits? They were more satisfied than dissatisfied, although it seemed there was room for employers to offer improvements. Overall, about eight in ten workers were at least somewhat or very satisfied with both their pay and benefits (figure 3-9). More than one-third were very satisfied with both.

Satisfaction with benefits varied, however, by whether there had been changes to them over time. Predictably, workers were most likely to say they were very or somewhat satisfied with their benefits if those benefits had become more generous since they were first hired. Regardless of the benefit, more than nine in ten workers whose employers had increased benefits said they were satisfied with them,

Table 3-7. Workers' Perceptions of Benefit Generosity Since First Hired*
(in percentages)

Benefit	Change in Benefit			Increased Generosity by Age of Employee	
	Increased	Stayed the Same	Decreased	50+	Under 50
Health insurance for workers (n=1,400)	23	50	25	26	21
Health insurance for families (n=1,329)	22	47	26	25	20
Health insurance for retirees (n=440)	11	40	23	15**	9**
Pensions or retirement savings plan (n=1,208)	23	62	9	27	21
Training or tuition reimbursement (n=1,030)	23	66	7	19	26
Financial planning information (n=835)	28	65	4	33	26

Since you were first hired by your current employer, would you say that the generosity of the benefits that your employer offers in each of the following areas has increased, decreased, or remained about the same?

* Asked only of those workers who reported that their employer offered the named benefit.

** Not significant at the .05 level. All other age differences are significant.

Source: AARP Social Compact Study.

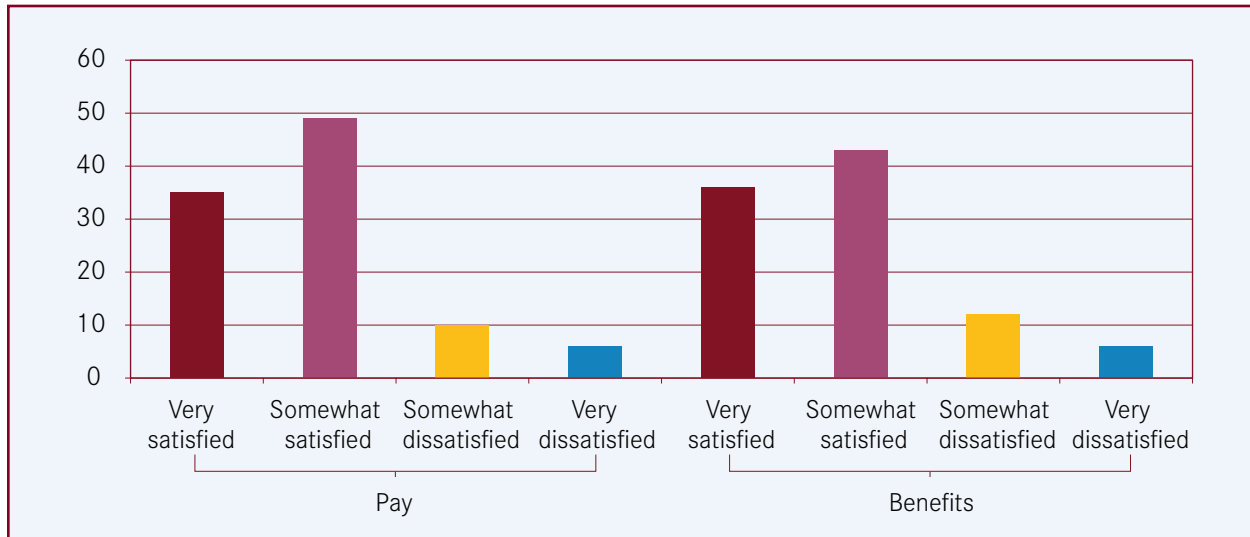
and almost as many were satisfied if their benefits had remained about the same (table 3-8). However, if benefits had become less generous, dissatisfaction became more apparent. Even so, the majority of workers said they were satisfied, even in the face of benefit cuts. Why this was so is not clear. Perhaps compared to what they might have been hearing about cutbacks and job losses, they were simply grateful to have the benefit at all.

ANTICIPATED EMPLOYER CHANGES IN BENEFITS

Health Benefits

More than 60 percent of employers in organizations that offered health benefits for workers or retirees anticipated that their organization would make changes to their health insurance benefits in the

Figure 3-9. Employee Satisfaction with Pay and Benefits
(in percentages) (n=1,500)



Overall, how satisfied are you with the [pay or benefits] provided by your employer? Are you very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?

Source: AARP Social Compact Study.

next five years (table 3-9). Just over one-fourth (26 percent) said they would increase the share of health insurance costs paid by workers, while just over one-fifth said a high-deductible health plan option for workers would be introduced. Just over 10 percent of employers anticipated changing carriers or exploring less expensive plans. Other possible changes, including offering an HMO or shifting to individual policies, were mentioned by very few.

Pension or Retirement Savings Plan Benefits

One-fifth of employers in companies that offered pension or retirement savings plan benefits said they anticipated that their organization would make changes to these benefits in the next five years. Those in firms with 500 or more workers were more likely

than those in smaller companies to anticipate making these changes to pension or retirement benefits.

One of the most common anticipated changes was actually an improvement—an increase in a company’s pension contribution or matching 401(k) contribution, mentioned by 28 percent (table 3-9).¹⁴³ No employer brought up automatic enrollment. (The survey took place before enactment of the Pension Protection Act of 2006, which should facilitate the introduction of automatic enrollment.)

Almost no employers thought their company would eliminate their traditional DB pension plan for recently hired workers in the next five years (not shown in table 3-9). Seven percent of the employers who expected changes said they anticipated a reduction in pension benefits in the near future, but

Table 3-8. Change in the Generosity of Employer-Provided Benefits by Overall Employee Satisfaction with Benefit
(in percentages)

Change in Benefit Generosity*		Satisfaction with Benefits Provided by Employer	
		Satisfied	Dissatisfied
Health insurance for workers	Increased (n = 316)	92.1	7.9
	Remained about the same (n = 694)	88.0	12.0
	Decreased (n = 346)	69.9	30.1
Health insurance for the families of workers	Increased (n = 286)	92.8	7.2
	Remained about the same (n = 629)	89.7	10.3
	Decreased (n = 344)	68.4	31.6
Health insurance for retirees	Increased (n = 47)	93.4	6.6
	Remained about the same (n = 174)	92.3	7.7
	Decreased (n = 103)	79.1	20.9
Pension or retirement savings plan	Increased (n = 273)	94.3	5.7
	Remained about the same (n = 744)	87.7	12.3
	Decreased (n = 111)	71.7	28.3
Training opportunities or tuition reimbursement	Increased (n = 239)	90.1	9.9
	Remained about the same (n = 679)	86.9	13.1
	Decreased (n = 76)	79.9	20.1
Financial planning information and education	Increased (n = 232)	92.7	7.3
	Remained about the same (n = 544)	86.2	13.8
	Decreased (n = 34)	52.2	47.8

*Asked only of those whose employers offered the respective benefit.

Since you were first hired by your current employers, would you say that the generosity of the benefits that your employer offers in each of the following areas has increased, decreased, or remained about the same? And Overall how satisfied are you with the benefits provided by your employer? Are you very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?

Source: AARP Social Compact Study.

Table 3-9. Company Benefit Changes Anticipated by Employers over the Next Five Years
(in percentages)

	Employers
Percent anticipating health insurance changes*	61
Percent anticipating pension or retirement savings plan changes**	21
Anticipated health insurance changes***	
Increase share of insurance costs paid by workers	26
Introduce high-deductible plan option	21
Change carriers/explore less expensive options/shift to individual policies	11
Reduce benefits	8
Introduce a health savings account	6
Other types of cost sharing	5
Other	37
None	1
Don't know	7
Anticipated pension changes***	
Increase company match	28
Change vendors	13
Reduce benefits	7
Introduce DC plan (401(k))	5
Improve/add/change funds	5
None	5
Other	30
Don't know	8

*Asked only if firm offered health insurance; n = 642.

**Asked only if firm offered a pension or retirement savings plan; n = 537.

***Asked only of employers who anticipated changes (n = 391 for health insurance benefits and 115 for pension or retirement savings plan). Verbatim responses were recorded, and only specific responses mentioned by at least 5 percent of the employers are reported here.

Over the next five years, do you anticipate that your organization will make any changes to your [health insurance benefits] [pension or retirement savings plan]?

Source: AARP Social Compact Study.

13 percent observed that they were likely to see a shift to another vendor. Some employers did not expect any changes.

SPENDING INCREASED PROFITS

For-profit firms are often believed to place a high—some think disproportionately high—priority on investment returns for shareholders, perhaps at the expense of the social compact. People point to soaring executive salaries, slowly growing or even stagnating wages among some groups of workers, pension terminations, and rising health insurance copayments as examples of a corporate world that places too little value on worker well-being. The employers in AARP’s Social Compact Study placed a very high priority on increasing capital investment or research and development (R&D) when profits rise, and nearly all of them also placed a high or very high priority on increasing worker pay (table 3-10).¹⁴⁴ With respect to spending profits, increasing workers’ pay received top ranking (high and somewhat high priority combined), followed by increasing capital investment or R&D. Whether the companies in which these employers work actually would spend increased profits as the employers say they should is, of course, not known.

SO WHAT ABOUT THE SOCIAL COMPACT?

Toward the end of the survey, a question returned to the issue of the social compact more directly: *Earlier in this survey, I mentioned that some people say that most employers and most workers have certain responsibilities to each other and expectations of each other. This idea is sometimes expressed in the following way: Workers who work hard and do a good job can expect certain benefits from their employer such as a safe working environment, health insurance, adequate pay, and a more secure retirement. This understanding of the mutual expectations and responsibilities between employers and workers is sometimes referred*

*to as a “social contract” or “social compact.” Do you agree or disagree that a **social contract or compact** such as what I just described exists between most employers and most workers in the United States today?*

Over half of workers (56 percent) and two-thirds of employers (67 percent) agreed at least somewhat or strongly that a social compact or contract exists. Strong agreement was held by a minority—about one-third of the employer groups and less than one-fourth of the employees (figure 3-10).

Younger workers were more likely than older workers to agree both strongly (24 percent vs. 17 percent) and somewhat (37 percent vs. 26 percent) that a compact exists, perhaps because older workers have seen the compact erode. Younger *employers* were also more likely to strongly agree that a social compact exists (38 percent vs. 24 percent).¹⁴⁵

Older workers were significantly more likely to disagree somewhat (30 percent vs. 21 percent) and strongly (19 percent vs. 14 percent) about the existence of a compact.

Among workers, there were some differences by sex as well: Men were more likely than women to agree, especially to strongly agree (24 percent vs. 19 percent), that a social contract or compact exists. Firm size seemed to make little difference for workers; nor did for-profit or nonprofit status. As might be expected, workers who were satisfied with their benefits were more likely than dissatisfied workers to agree that a compact exists. The same was true with respect to satisfaction with pay.¹⁴⁶

As noted earlier, employers and employees overwhelmingly agreed, and generally strongly, that employers and workers have responsibilities to and expectations of each other. The question that asked about this linked such responsibilities and expectations to the social compact but did not explicitly ask if respondents viewed them as part

Table 3-10. Increased Profits—Employer Priorities for Spending
(in percentages)

	Employers (n = 682)
Increase worker pay	
Very high priority	28
Somewhat high priority	59
Somewhat low priority	10
Very low priority	2
Increase worker benefits	
Very high priority	20
Somewhat high priority	49
Somewhat low priority	22
Very low priority	6
Increase shareholder dividends	
Very high priority	14
Somewhat high priority	33
Somewhat low priority	20
Very low priority	14
Increase capital investment or R&D	
Very high priority	30
Somewhat high priority	45
Somewhat low priority	13
Very low priority	6

When an organization's profits increase, it often has to decide how to use the increased profits. In your opinion, when profits increase, should organizations give a very high priority, a somewhat high priority, a somewhat low priority, or a very low priority to using the increased profits to . . . ?

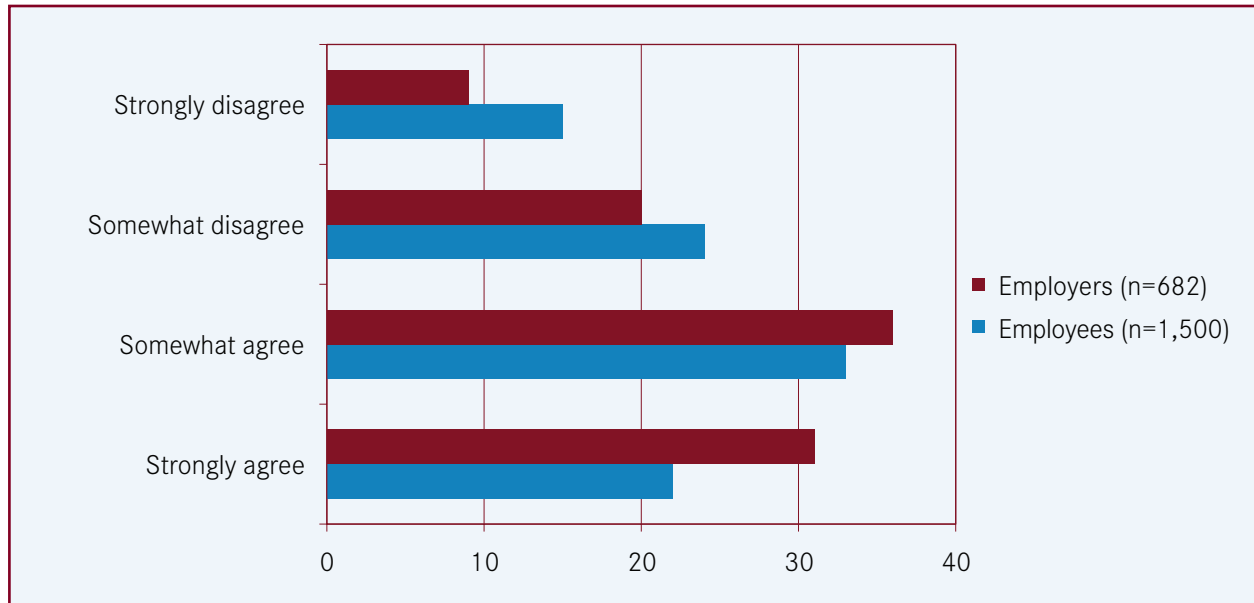
Source: AARP Social Compact Study.

of a social compact. This last question did so, and responses were more muted.

The issue of the social compact is a complex one and not easily examined in a telephone survey whose questions must be limited to an interview duration

that respondents will tolerate. The two questions differ from one another, despite the fact that both were designed to get at the understanding of the social compact, albeit in different ways. Therefore, one cannot conclude that belief in the existence of the social compact changed over the course of the

Figure 3-10. Belief in the Existence of a Social Compact
(in percentages)



Earlier in this survey, I mentioned that some people say that most employers and most workers have certain responsibilities to each other and expectations of each other. This idea is sometimes expressed in the following way: Workers who work hard and do a good job can expect certain benefits from their employer such as a safe working environment, health insurance, adequate pay, and a more secure retirement. This understanding of the mutual expectations and responsibilities between employers and workers is sometimes referred to as a “social contract” or “social compact.”

Do you agree or disagree that a *social contract or compact* such as what I just described exists between most employers and most workers in the United States today?

interview as they were probed about various aspects of their relationship with their employer or workers. It may have changed.

However, it may simply be that although the large majority of employers and employees felt strongly that workers and their employers have mutual expectations and responsibilities, they were less certain that these expectations and responsibilities—as illustrated in the second question—constitute the social compact. They might have believed in the existence of the social compact, but they might also have felt that it encompasses something different

from what was described in the question. Or they may have been less certain about the social compact than they would have been five or ten years earlier.

Although the Social Compact Study does not enable us to draw conclusions about the precise meaning of the social compact to either employers or employees, a key finding of the study is that employers and employees were in close accord when it came to feelings about responsibilities to and expectations of each other. Both believed that there should be shared responsibility for ensuring health and retirement security.

4

Toward a New Social Compact

SUMMARY OF THE AARP SOCIAL COMPACT STUDY

Do employers and employees think that a social compact exists? There are definitely shared expectations between the two groups. Employers and workers seem to agree on certain elements of a social compact, but those have to do mostly with the basics of doing a good job and receiving an adequate salary. The American public, including employers, strongly agrees that employers and employees have certain responsibilities to and expectations of one another, and employers and employees tend to be in agreement about what the expectations are. Employees are expected to do a good job and give an honest day's work, while employers are expected to provide their employees fair compensation and benefits and treat them justly.

To the extent that they made the connection between expectations and responsibilities and a social compact/contract (*“Recently, some people have talked about the idea of a social contract or compact between employers and workers. Do you agree or disagree that employers and workers in the United States have responsibilities to each other and expectations of each other?”*), one could conclude that most working Americans believe in the existence of a social compact, at least as defined as a vague set of responsibilities and expectations between employers and employees. There is no way of knowing, however, if respondents made the connection.

It is clear that both employers and employees have some very definite ideas about the importance of various employee benefits. Employees see health insurance benefits as the most important benefit employers can provide. Employers are more divided between health insurance and keeping skills current when it comes to identifying the most important benefit. From the employer's perspective, ensuring that workers' skills are up-to-date is undoubtedly key to remaining competitive (and being able to pay for health insurance and other benefits). This may help explain the difference between employers and employees in opinions about the most important benefit employers can provide. In a world where job tenure is declining, at least among some groups of older workers, skills updating is very important to workers as well if they want to remain employable. And they see it as very important, although not as the most important benefit.

The majority of employees in the study said their employers offer health insurance for workers and families of workers, a pension or retirement savings plan, training opportunities or tuition reimbursement, financial planning

information and education, and health education or wellness information. The percentages of employers noting that their firms offer these benefits were generally comparable. Of the benefits workers were asked about, only retiree health benefits were offered by a minority of employers.

Employer complaints about the escalating costs of providing health care in the United States are widespread, and employers have been trying to control their expenditures for health care by cutting benefits and requiring greater cost-sharing on the part of their employees. Such shifts are evident in AARP's Social Compact Study. More than half of the employers whose firms offer health insurance, for example, reported that over the past five years, the share of health insurance costs paid by employees had increased. Yet very few had eliminated health benefits for workers.

Benefit termination appears, in fact, relatively uncommon, at least among the organizations of the employers and, to a somewhat lesser extent, employees in this study. If an organization in the survey was not offering a benefit, it was unlikely to have done so in the past (defined as in the last five years for employers and since date of hire for employees).

That is not to say that there have been no changes to benefits. The shift to 401(k)s and other DC pension plans is one development with worrisome implications that have become more apparent since the start of the recession in December 2007.

But that shift, it seems, is what workers prefer—or did before the market meltdown. Fully 80 percent of employees contended that if they had to choose between a DC plan and a DB plan, they would prefer the DC plan. If workers do not appreciate DB plans, why should employers continue to assume the risks they entail? Is the shift to the type of plans workers say they favor a breaking of the social compact?

For many workers, some benefits have remained about the same or have actually become more generous over time. Given the rising cost of health care, it comes as no surprise that employees were more likely to report that health benefits (for workers, families, and retirees) had become less generous than to say that had happened to pensions, training, or financial planning information benefits. Nevertheless, some employees reported that the generosity of health insurance benefits offered by their employer had increased since they were first hired.

What the future holds with respect to benefits remains to be seen, but workers should be prepared to assume more responsibility for the benefits they do have. The majority of employers anticipated that workers would be taking more responsibility for providing health care coverage for themselves, keeping their job skills up-to-date, and ensuring that they will have adequate income in retirement. Very few expected that workers would have to assume less responsibility.

One of the more unexpected findings in the study involves the perceptions of who should have the largest role in paying for health insurance. The extent to which government, employers, or workers should play the largest role in paying for a benefit varied by benefit, but when it came to health insurance, both employers and employees overwhelmingly stated that it should be the employer. With the exception of health insurance for retirees, government was seldom seen as having the largest role in paying for the variety of benefits examined in the study. More than half of employers and employees maintained that the largest role for retiree health benefits belongs to government.

On the whole, employers appeared to be maintaining benefits aside from retiree health benefits, at least in organizations with 20 or more employees, although the employee cost-sharing for some of those benefits was rising. Moreover, the high rate

of pension coverage pertained largely to DC plan coverage, which could, depending on contribution rates and returns, leave many workers ill prepared for retirement. Employers were less likely to see themselves playing a key role in providing pensions than some other benefits, although a number of them had increased the company 401(k) match. Only a minority of the employees in the Social Compact Study were employed by organizations that offer retiree health benefits. Just how many workers will actually receive those benefits is problematic; neither employers nor workers tended to see them as a responsibility of the employer, but rather of the federal government. Employers predicted that workers themselves will be shouldering more responsibility for other benefits in coming years.

To the extent that a social compact existed in the early post-World War II era, today's social compact is different and some would argue considerably weaker. Not everyone would necessarily agree, however. Employers, as the AARP Social Compact Study shows, are maintaining and sometimes expanding benefits. In some areas, as Mathew Greenwald has observed, employers are moving benefits toward a form that employees like better, such as DC plans with their enhanced portability.¹⁴⁷ This is not necessarily a renegeing of the social compact. Nor is an increase in employee cost-sharing. Employer expenditures for employee benefits have risen in constant dollar terms and as a percentage of total compensation.¹⁴⁸

Still, workers are more on their own today, and employer policies have both required and encouraged greater self-reliance. To the extent that there is a broad social compact that pertains to all workers, it is one that the government has created in partnership (i.e., through legislation) with employers and workers. It consists of Social Security retirement benefits, Social Security disability benefits, unemployment compensation, and Medicare.

A LOOK TO THE FUTURE

Even if a substantial portion of the workforce always came up short as far as secure, lifelong jobs with decent wages and good benefits were concerned, many American workers could count on their employers to retain them as long as they wanted to stay, to pay them fairly, and to provide a variety of benefits, including pensions and health insurance. Whether those workers thought of themselves as partners in a social compact is perhaps beside the point. They lived the good life because, in exchange for their labor, their employers took care of many of their needs. That was a large part of the American dream.

But that dream has been fading. Workers in companies that once seemed to provide it all—large, unionized firms in particular—face benefit cutbacks and rising costs. In a global economy, many jobs that once seemed secure are at risk of being outsourced, converted to contingent status, or restructured out of existence. Employers are less willing or able to make some of the long-term commitments to their workers that they once did, and workers themselves may be less interested in some of the commitments as well. One of the most notable changes has been with respect to employer-provided pensions. The proportion of workers covered has changed little since the 1970s, but workers who have coverage are increasingly covered by DC plans. Despite the risks such plans entail for them, workers seem to be satisfied with this arrangement, according to the findings of the AARP Social Compact Study.

Changes are happening in the health field as well, with fewer and fewer companies providing retiree health benefits, for example. Although employers in the Social Compact Study maintained that they should play the largest role in providing health care, they were not saying theirs is the only role, and national figures suggest they are not getting the job done.¹⁴⁹ Employees' share of health care costs has

been increasing; further efforts to control costs could adversely affect the availability and quality of health care. Millions of Americans currently lack health insurance, and many who have it will lose it when they stop working.

In a global economy characterized by rapid technological change, shifting markets, and growing competition from abroad, employers and workers face an uncertain future. Both need to be flexible and adaptable to respond to changing market conditions. Many employers are unable to guarantee jobs that will last for a lifetime—or for very long at all—which increases the vulnerability of workers who need to maintain skills that will keep them marketable. With stagnating pension coverage and the shift to DC pension plans, workers must also be protected against the inclination to put off saving and investing and must be better educated about their choices and the decisions they must make. Ideally, employers would continue to provide health insurance, retiree health benefits, and a combination of DB and DC pension plans, as well as flexible, family-friendly workplaces and benefits. They are doing some but not all of this. Employers are maintaining commitments to their current employees but terminating those commitments once the employment relationship has ended, whether as a result of job change or retirement.¹⁵⁰ Lifelong commitment in the form of health and pension benefits through retirement is something that relatively few workers can expect in the future.

Can the social compact of *Leave It to Beaver* days be restored or reinvigorated? Should it be? If so, what will it look like? What public and private sector policies can be designed or strengthened to help workers more effectively deal with economic insecurity across the life cycle? There are likely many competing views about how a twenty-first century social compact should look. In an initiative to craft the next social contract, the New America Foundation proposes a “citizen-based” contract that does not eliminate all risks but that rather promotes “the

promise of opportunity coupled with responsibility for all Americans.”¹⁵¹ That contract responds to the need everyone has for health care and financial support in the event of old age, job loss, or inability to work.

Of course, workers and their families cannot address economic insecurity entirely on their own. To move forward, it will be necessary to find ways to maintain and strengthen the private-public safety net; to assure a basic set of protections for everyone; and, at the same time, to improve opportunities for individuals, families, and employers to build on that foundation. To that end, we offer a series of recommendations for a minimum set of protections to help people save for a secure retirement, gain access to stable and affordable health insurance, and obtain the training and skills they need to succeed in an increasingly competitive and fluid job market.

Social Security

If research on the social compact highlights anything, it is the continued importance of Social Security in promoting income security in the United States. Social Security is and will likely remain the mainstay of retirement-income support for most Americans. Social Security benefits go to more than 90 percent of persons ages 65 or older; nearly 40 percent of the income of persons in this age group comes from Social Security.¹⁵² Given stagnation in private pension coverage, the shift from DB to DC plans, and a general lack of savings on the part of the American public, it is thus critical that Social Security be maintained as a stable DB program that provides guaranteed benefits for life to all who have contributed to the system and meet the qualifications for benefits. Adjustments to the program must be made to restore its long-term solvency. Any solvency package should maintain a progressive benefit formula that replaces a greater share of the earnings of low-wage workers than higher-wage workers and should continue full, annual cost-of-living adjustments that enable benefits to keep pace with inflation.

Social Security, however, is important to more than retirees. At the end of 2008, nearly one-third of Social Security beneficiaries, or 15.7 million people, were disabled workers and their family members or survivors of deceased workers; many were children.¹⁵³ Because alternative sources of income are not readily available to many of these beneficiaries, it is also important that Social Security continues to maintain benefits that protect workers *and* their families from lost wages that result from death and disability, as well as from retirement.

The flawed SSDI program is not adequate for the workforce of the twenty-first century. The program lacks short-term disability benefits; applicants for long-term disability benefits must demonstrate that they are unable to do any kind of gainful work, which hardly serves as an incentive to get back into the labor force.¹⁵⁴ To enhance the adequacy of this program, the process of determining disabilities should be simplified and accelerated; the two-year waiting period for Medicare should be eliminated; and options of providing temporary-total and permanent-partial disability benefits should be explored. It is also particularly important that work disincentives be reduced.

Because many Americans lack much in the way of voluntary employee benefits or are finding the risks and costs of the benefits they do have rising, the public social compact is as important and perhaps even more important than it has been in the past, particularly in light of increasing longevity. Thus, Social Security's long-term solvency must be restored. While the final solvency package will involve a mix of changes to the program, it is important that benefit adjustments encourage longer work lives rather than sacrifice adequacy. Under current law, Social Security earnings replacement rates are falling. Households heavily dependent on Social Security will not find it easy to absorb further reductions.

With employers assuming less life-long responsibility for their employees, the social compact between workers and the government becomes ever more crucial. Obviously, a strong, sustainable Social Security system that continues to provide a guaranteed, lifetime, inflation-adjusted benefit to retirees is paramount to the retirement-income well-being of future cohorts of Americans.

Employer-Provided Pensions or Retirement Savings Vehicles

As noted elsewhere in this report, one of the more dramatic changes in employee benefits in recent decades has been the demise of the traditional DB plan and the rise of the DC plan or, more precisely, the 401(k). Workers in the AARP Social Compact Study did not appear to be too upset about this development, although that might have changed in light of the market decline's impact on investments and the large numbers of workers who now feel financially unprepared for retirement.¹⁵⁵

With a 401(k), employers may or may not make a matching contribution (most do, although some companies have suspended or terminated the match as a result of the economic downturn), but the decision to save and where to invest is up to the employee. Investment risk has shifted from employer to employee. How the employee fares in retirement depends on a range of factors, some beyond the control of the investor. But the outcome is also the result of decisions that workers make all along the route to retirement (e.g., whether to invest in the plan, when to begin investing, how much to invest and in what, how investments should be changed over time, and how to manage assets and spending in retirement).

Given that pension coverage has remained relatively flat since the 1970s and workers with coverage are less and less likely to have traditional DB plans than in the past, efforts to restore the DB system are unlikely to bear fruit. Still, there are

other ways for employers to play a greater role in increasing access to pensions and savings plans and retain the flexibility they need to ensure that their businesses remain competitive in the global economy. When decisions about whether to save are made for employees (e.g., through automatic enrollment features), the evidence indicates that they are more likely to save and to continue saving.¹⁵⁶ Employers could

- ▶ Offer all workers a way to save through payroll deductions;
- ▶ Provide automatic enrollment in 401(k) plans;
- ▶ Provide automatic rebalancing of employee 401(k) accumulations;
- ▶ Offer employees the option of automatically saving all or a portion of future raises;
- ▶ Include life-cycle funds (where employees identify when they expect to retire and the fund's investments are based on the time horizon) in their retirement savings plans, perhaps as the default option;
- ▶ Offer access to annuities;
- ▶ Educate their employees about the consequences of various financial and other (e.g., retirement) decisions; and
- ▶ Provide retirement planning.

Many employers are doing some or all of these things. The offerings might not make up for the lack of a DB plan, but by helping workers overcome inertia, rebalance, or move to more appropriate investments without worrying about making the right decision, learn about saving, and plan for retirement, employers can make it easier for their employees to avoid some potentially very costly mistakes with long-term financial consequences. Employers also avoid

long-term commitments that they might not be able to meet in 30 or 40 years. Hybrid plans that combine features of DB and DC plans but share the risk more equitably between employers and employees may offer more assurances than straight DC plans and thus be more appealing to workers today.

Access to Health Care

Health insurance coverage is a major issue for America's workers. The United States is alone among industrialized countries in not providing government-funded health care coverage to its citizens. Rather, it relies on employers as the primary providers of health insurance. The cost of health care has soared in recent years, causing employers to introduce a variety of cost-cutting measures. Even though, according to the AARP Social Compact Study, employers largely see themselves as being the entity that should play the largest role in providing health insurance to workers, they are not necessarily happy about that fact. It is doubtful that many employers will do much to enhance benefits or expand coverage that adds to those costs.

How best to provide health care to the millions of uninsured Americans while maintaining adequate coverage for those with employer-provided health insurance or enrolled in publicly funded programs such as Medicare is beyond the scope of this report and, in fact, was the subject of vigorous public debate as this report was being completed. Options in AARP's *Building a Sustainable Future: A Framework for Financial and Health Security* include maximizing enrollment in and strengthening public programs and encouraging public/private initiatives to expand access to affordable coverage while attempting to control costs.¹⁵⁷

Employers can also provide health and wellness programs along with access to health education to help their workers adopt and maintain healthy life styles and make wise decisions about health care. In fact, all employers *should* do this, in

part to help contain their own health care costs, lower absenteeism due to illness, and enhance performance. Most employers, at least those with 20 or more employees, continue to feel that they have a substantial role to play when it comes to employee health insurance, even if they have been increasing the cost to employees and see more of the cost burden being shifted to workers.

Longer Work Lives, Better Jobs

In a changing, global economy, workers must be flexible, adaptable, and prepared for change. Few entry-level workers will be able to count on remaining with a single employer for a lifetime. Even middle-aged and older workers must be prepared for job changes—voluntarily in the case of many midlife job or career changes or postretirement bridge jobs, or involuntarily as a result of job displacement, company restructuring, or the inability to continue doing the same type of work.

In the face of advancing technology and more cognitively complex jobs, workers who want to remain employed must have the ability to acquire new skills repeatedly over their working years. Technological developments may require workers to acquire new skills on their own.

Employers that offer education and training opportunities to their employees cannot deny those opportunities to their employees because of age, sex, race, disability, or other characteristics protected by the nation's civil rights and related laws. But their employees have an obligation to take advantage of the opportunities. Although employer-provided training is not typically designed to make employees attractive to new employers, updated skills can do just that. Nonetheless, workers may need to go beyond what an employer provides to acquire marketable skills. In other words, workers may need to seek and pay for education and training that will help ensure their employability should they lose their job or simply want something new.

This is an added burden that workers may have to assume to remain marketable. Furthermore, there are millions of contingent and self-employed workers and employees in smaller firms who lack access to employer-provided training. The same is true of workers who have left the labor force and want to reenter it.

Because workers of the future are likely to be more job mobile than those of the past—and because employers will increasingly need continuously updated skills—workers must keep their skills honed to remain employable. Making this happen is a shared responsibility. Workers must seek out and take advantage of training opportunities, particularly those offered by their employers. Employers should also periodically assess the skills of their workers in light of technological change and labor market developments and ensure that workers of all ages have access to training (preferably through on-the-job training or tuition assistance) that keeps them technologically up-to-date and marketable.

There is little evidence that America's workforce development system is up to meeting the changing needs of a very diverse population of workers and potential workers in the twenty-first century. Because workers have had to assume more of the risks of ensuring their own financial security—or are paying more for that security—they are going to have to work longer and/or harder at better jobs, if possible. Just how best to promote access to worker training—at an affordable cost—needs further study and promising demonstration programs. However, improving the skills of America's workers and keeping them up-to-date must be a top priority in any reconceptualization of the social compact.

CONCLUSION

A shrinking proportion of Americans work for paternalistic employers that promise long-term job security and provide benefits that cover most

current contingencies and guarantee a reasonably comfortable retirement. Moreover, millions of workers do not have and never have had such security or promises. The upshot of globalization, the decline in unionization, and, more recently, rising energy costs is that workers today are increasingly on their own when it comes to making decisions about health care, saving for the future, or continuously acquiring the skills and training necessary to obtain decent jobs. Workers face a range of decisions today that many of them could avoid in the past, and the consequences of bad decisions can be devastating.

AARP's Social Compact Study indicates that workers can expect to take even more responsibility for what employers used to provide. Workers have not, however, done particularly well with the responsibilities they have had to assume to date, if statistics on savings rates, 401(k) investments, annuitization decisions, and the like are any sign. But workers have little control over the stock market, and they lost huge sums of money when the market plummeted.

At the very least, workers need better information on how to handle their responsibilities and what to do when faced with the reverses they have recently experienced. Some of those responsibilities could be made less taxing by, for example, widespread implementation of some of the automatic enrollment and diversification recommendations made above.

Although there seems little hope that the future will see a social compact like the idealized one of mid-twentieth century America, employers continue to spend sizable amounts of money on training and benefits for their employees.¹⁵⁸ They obviously want and need conscientious, productive employees and recognize the importance of benefits in attracting workers. It appears from the AARP Social Compact Study that employers expect to continue

to invest in training and benefits, albeit with some increased cost-shifting to workers. What employers are not willing or able to do, it seems, is assume responsibility for their workers after they have left their employment, even if it is for retirement—hence, DC plans and cuts in retiree health benefits.

What a twenty-first century social compact between employers and employees may look like—indeed, whether and how one evolves—remains to be seen. It is not even known how important the notion of a social compact is to workers or their employers. What is clear from the AARP Social Compact Study is that both employers and employees agree—typically strongly—that employers and workers have responsibilities to and expectations of one another, and they appear to be in reasonable accord about what the expectations are.

The survey did not probe workers or employers for their views about the public social compact, but the importance of publicly financed benefits in promoting current and future well-being seems unlikely to weaken over time and may well strengthen as a result of the recent huge losses to 401(k) and other savings plans. Rising unemployment has left a growing number of workers without health insurance and unable to afford Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) coverage. Even the reduced premiums made possible by the American Recovery and Reinvestment Act of 2009 may be too much for some unemployed workers. Despite UI benefit extensions, many Americans have exhausted their UI benefits and still have not found work. Both current income and financial security in retirement have been undermined by employment and stock market losses. Ensuring that the public programs that constitute that compact can meet the demands likely to be placed on them in coming decades must be a high policy priority.¹⁵⁹

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34. Patrick Purcell, *Pension Sponsorship and Participation: Summary of Recent Trends*, table 2.
35. Ibid.
36. Examining only the total coverage rate for private sector workers obscures the patterns of change for men and women. Pension coverage has worsened for men but improved for women. From 1987 to 2004, the private sector pension coverage rate for women increased from 41 percent to 47 percent, while for men it decreased from 51 percent to 49 percent. See Craig Copeland, *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2004*, EBRI Issue Brief #286 (Washington, DC: Employee Benefit Research Institute, October 2005). Among women, the increased pension coverage rate reflects improved earnings, an increase in full-time work, and—to a lesser extent—increased union membership and

employment in large firms. Among men, the decline is partly due to decreased union membership. See Alicia H. Munnell, James G. Lee, and Kevin B. Meme, *An Update on Pension Data*, Issue Brief #20 (Chestnut Hill, MA: Center for Retirement Research at Boston College, July 2004).

37. Sass, *The Promise of Private Pensions: The First Hundred Years*.
38. Ibid. 231.
39. Lawrence S. Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Washington, DC: The Economic Policy Institute, 2006), chapter 5, http://www.stateofworkingamerica.org/swa06-03-wages_unions-excerpt.pdf.
40. Ibid., 188.
41. Barry A. Hirsch and David M. McPherson, "Union Membership, Coverage, Density, and Employment Among Private Sector Workers, 1973–2006," (table, 2007), <http://www.trinity.edu/bhirsch/unionstats/>; U.S. Department of Labor, Bureau of Labor Statistics, "Union Members in 2007," *News USDL 08-0092*, January 25, 2008, http://www.bls.gov/news.release/archives/union2_01252008.pdf; U.S. Department of Labor, Bureau of Labor Statistics, "Union Members in 2008," *News USDL 09-0095*, January 28, 2009, <http://www.bls.gov/news.release/pdf/union2.pdf>. Union membership in the public sector, in contrast, has increased, rising from about 25 percent in 1975 to more than 35 percent in 2004 (Henry S. Farber, *Union Membership in the United States: The Divergence between the Public and Private Sectors*, Working Paper #503 [Princeton, NJ: Princeton University Industrial Relations Section, September 2005], <http://www.irs.princeton.edu/pubs/pdfs/503.pdf>).
42. Patrick Purcell, *Pension Sponsorship and Participation: Summary of Recent Trends*.
43. William Even and David Macpherson, *The Effect of the Shift to Defined Contribution Plans on the Distribution of Pension Wealth* (Oxford, OH: Miami University of Ohio, 2006), <http://garnet.acns.fsu.edu/~dmacpher/research/Pdf/DCPlans%20and%20Wealth.pdf>.
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49. This update notes that during the choice period, plan participants experienced "an economic recession, plummeting stock market, negative press accounts of the dangers of 401(k) plans, [and] the aftermath of . . . September 11" (p. 2). Any

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50. Jeffrey R. Brown and Scott J. Weisbenner, “Who Chooses Defined Contribution Plans?” paper presented at the 8th Annual Joint Conference of the Retirement Research Consortium, “Pathways to a Secure Retirement,” August 10–11, 2006, Washington, DC.
 51. Alicia H. Munnell, Anthony Webb, and Luke Delorme, *A New National Retirement Risk Index*, Issues in Brief No. 46, (Chestnut Hill, MA: Center for Retirement Research at Boston College, June 2006). Younger households (Generation Xers) are at greater risk of not having saved enough by age 65 than older households (Early Boomers).
 52. John Turner and Satyendra Verma, “Why Some Workers Do Not Take 401(k) Plan Offers: Inertia Versus Economics,” AARP unpublished paper, August 2005; Alicia H. Munnell and Annika Sundén, *401(k) Plans Are Still Coming Up Short*, An Issue in Brief No. 43 (Chestnut Hill, MA: Center for Retirement Research at Boston College, March 2006), 3.
 53. Munnell and Sundén, *401(k) Plans Are Still Coming Up Short*, 5. The report notes that holdings in individual retirement accounts are included because they consist mainly of 401(k) rollovers.
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 56. Low-wage workers are also less likely to be employed in firms that offer 401(k)s in the first place. See, e.g., Robert L. Clark, “Portability of Benefits, Job Changes, and the Role of Government Policies,” paper presented at the May 25–26, 1999, conference “Symposium on Changing Employment Relations and New Institutions of Representation,” <http://www.dol.gov/oasam/programs/history/herman/reports/futurework/conference/policy/retirement.htm>.
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109. Carmen DeNavas Wait, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, Current Population Reports P60-235 (Washington, DC: U.S. Government Printing Office, 2008).
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123. Bernanke, "Skills, Ownership, and Economic Security."
124. Franklin D. Roosevelt, "Message to Congress on the Objectives and Accomplishments of the Administration," June 8, 1934, <http://www.presidency.ucsb.edu/ws/print.php?pid=14690>.
125. The Committee on Economic Security reported to President Roosevelt in 1935 that one-third to one-half of the 7.5 million people age 65 or older in the country were dependent on either public assistance or help from their families, and that only a relatively small percentage of that group was receiving any help from the government. See Social Security Online, History, Reports and Studies, CES Report, *Report of the Committee on Economic Security* (1935), <http://www.socialsecurity.gov/history/reports/ces5.html>.
126. During the Great Depression, the nation's wealth was cut almost in half. The gross national product declined from \$104.4 billion in 1929 to only \$58.5 billion in 1932 (derived from U.S. Department of Commerce, *U.S. Income and Output*, November 1958, table 1; and U.S. Department of Commerce, *National Income*, 1954, cited in Murray N. Rothbard, *America's Great Depression*, 5th edition [Auburn, AL: Ludwig von Mises Institute, 2005], 341, <http://www.mises.org/rothbard/agd/appendix.asp>).

127. Prior to Franklin Roosevelt's New Deal, the proposals for change fell into three general approaches: (1) Create new welfare programs. For example, the Townsend Plan, funded through a national sales tax, would provide \$200 a month to those 60 and older without gainful employment, and the Bigelow plan suggested that every person in Ohio over age 60 without a job receive \$50 a month, which would be paid for out of state real estate taxes plus some federal tax dollars. (2) Rely on voluntary charity—a problem because so many people were in need of charity and unable to contribute to assist others. (3) Don't do anything—the economy “will correct itself” eventually.
128. Roosevelt, “Message to Congress on the Objectives and Accomplishments of the Administration.”
129. Social Security Administration, Social Security Online, History, Special Collections Chronology, 1950s, <http://www.ssa.gov/history/1950.html>.
130. Social Security Administration, Social Security Online, History, Special Collections Chronology, 1960s, <http://www.ssa.gov/history/1960.html>. Full text of the 1935 law can be accessed at <http://www.ssa.gov/history/35actinx.html>.
131. Another adequacy factor is that Social Security benefits are adjusted annually to keep benefits even with inflation.
132. For example, benefits for widows were added in 1939 and disability benefits were added in 1956. The 1983 amendments were enacted to address both immediate and long-term solvency concerns.
133. For details on the history of Medicare, see Peter A. Corning, *A History of Medicare* (Washington, DC: U.S. Social Security Administration, Office of Research and Statistics, 1969), <http://www.ssa.gov/history/corning.html>.
134. Ishita Sengupta, Virginia Reno, and John F. Burton Jr., *Workers' Compensation: Benefits, Coverage, and Costs, 2004* (Washington, DC: National Academy of Social Insurance, 2006), 1, http://www.nasi.org/usr_doc/NASI_Workers_Comp_2004.pdf.
135. *Ibid.*, 9.
136. Social Security Online, Presidential Statements, Franklin D. Roosevelt, Presidential Statement Signing the Social Security Act. August 14, 1935, <http://www.ssa.gov/history/fdrstmts.html#signing>.
137. As written, this question ties employer/employee mutual expectations and responsibilities to the notion of a social compact or social contract, although there is no way of telling if a link was obvious to respondents.
138. With a very few exceptions, differences in agreement about responsibilities and expectations by demographic, socioeconomic, or employment characteristics were virtually nonexistent. Female employers were significantly more likely than their male counterparts to believe strongly that employers and employees have responsibilities to and expectations of one another (73 percent vs. 58 percent, respectively), but that was about the only significant demographic difference.

139. Among employers, there were even fewer differences by demographic characteristics or socioeconomic status. Female employers were significantly more likely than their male counterparts to contend that employers should have the largest role in paying for several of the benefits: a pension or retirement savings plan (53 percent vs. 37 percent); financial planning information or education for workers (25 percent vs. 42 percent); and health education or wellness information (52 percent vs. 37 percent). Male employers, in contrast, were significantly more likely to say that it should be workers: a pension or retirement savings plan (51 percent vs. 36 percent); financial planning information or education for workers (63 percent vs. 49 percent); and health education or wellness information (43 percent vs. 26 percent).
140. See, e.g., S. Kathi Brown, *A Year-End Look at the Economic Slowdown's Impact on Middle-Aged and Older Americans* (Washington, DC: AARP, January 2009).
141. Craig Copeland, *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2006*, EBRI Issue Brief #311 (Washington, DC: Employee Benefit Research Institute, November 2007).
142. Employers were not asked if health insurance for families, training opportunities, or financial planning information and education had been offered in the past.
143. As noted, this survey was conducted before the recession that began in December 2007 and during which employers have been suspending or eliminating their 401(k) matches. It is doubtful that employers would respond the same way today.
144. Employees were not asked about spending priorities.
145. This was one of the few statistically significant and meaningful differences on this item for employers.
146. Fifty-eight percent of workers who were satisfied with their benefits believed in the existence of a social compact, compared with 43 percent of the dissatisfied. The differences were somewhat narrower with respect to pay—56 percent vs. 47 percent.
147. Mathew Greenwald of Mathew Greenwald and Associates Inc., comments in response to a review of a draft of this report on the AARP Social Compact Study, October 1, 2007.
148. See *Benefit FAQs* at Employee Benefit Research Institute, <http://www.ebri.org/publications/benfaq/index.cfm?fa=overfaq>; the benefit cost data per hour worked reported by EBRI were converted to 2007 dollars.
149. Of the nearly 38 million 18- to 64-year-olds without health insurance coverage in the United States in 2006, nearly 28 million (73 percent) had worked during the year, 22 million of them full time (Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2006*, Current Population Reports P60-233 [Washington, DC: U.S. Government Printing Office, 2007]), table 6.
150. The Public Policy Institute thanks Mathew Greenwald of Mathew Greenwald and Associates for this observation made to the AARP Public Policy Institute, September 27, 2007.

151. Michael Lind, *A Citizen-Based Social Contract, Principles Paper: The Next Social Contract* (Washington, DC: The New American Foundation, July 2007), 1.
152. U.S. Social Security Administration, *Income of the Population 55 or Older, 2004*, table 7.1.
153. U. S. Social Security Administration, *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, (Washington, DC: Social Security Administration, January 2, 2009), http://www.ssa.gov/OACT/FACTS/fs2008_12.pdf.
154. AARP, *Building a Sustainable Future: A Framework for Financial and Health Security* (Washington, DC: AARP, 2008).
155. E.g., S. Kathi Brown, *A Year-End Look at the Economic Slowdown's Impact on Middle-Aged and Older Americans*.
156. See, e.g., Brigitte C. Madrian and Dennis F. Shea, *The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior* (April 2000), at SSRN: <http://ssrn.com/abstract=223635>.
157. AARP, *Building a Sustainable Future: A Framework for Financial and Health Security*.
158. According to the U.S. Chamber of Commerce, for example, employees in the companies that participated in the Chamber's 2008 Benefits Survey received an average of \$21,527 in benefits in 2006. See U.S. Chamber of Commerce, "U.S. Chamber Study Finds Medical Benefits Consume Largest Share of Employer Costs," Press release, February 2, 2008, <http://www.uschamber.com/press/releases/2008/february/08-24.htm>. The Bureau of Labor Statistics reports that employer costs for benefits as a percentage of total compensation averaged \$8.81 per hour or just over 30 percent of total compensation, for civilian workers in December 2008 (U.S. Department of Labor, Bureau of Labor Statistics, "Employment Costs for Employee Compensation Summary," *News*, USDL: 09-0247, March 12, 2009, <http://www.bls.gov/news.release/pdf/ecec.pdf>).
159. For additional options on building a more secure future, see AARP, *Building a Sustainable Future: A Framework for Financial and Health Security*.

Appendix A: Methodology

SAMPLE SELECTION

Employer Sample

The employer component of the AARP Social Compact Study consisted of two independently drawn, stratified random samples of HR directors and CFOs subsequently combined into one “employer” sample. In addition, a small random sample of CEOs was also interviewed. However, as explained below, the CEOs were not included in the detailed analyses of employers discussed in this report.

A random sample of companies was selected from lists of nonprofit and for-profit private sector organizations that were stratified by size. The sample was drawn independently for each of four organization sizes (20–99 employees, 100–499 employees, 500–999 employees, and 1,000 or more employees) for each of the employer groups.

Once a company was contacted, the correct administrator was asked for, by name or title if available. Names were available for 100 percent of the CEO sample, 21 percent of the CFO sample, and 30 percent of the HR sample.

HR directors were screened to ensure that each respondent was the head of human resources for his or her organization, was employed by a private sector organization with 20 or more employees in the United States, was located at the headquarters, and had been with the organization for at least six months. The CFOs were screened to obtain the most senior financial executive, one who was based at the headquarters and had been with the organization for at least six months.

Criteria for selecting CEOs were the same as those for the HR directors and CFOs, except CEOs were not required to be located at a company’s headquarters. The CEOs were interviewed primarily to provide a sense of how their perspectives compared to those of HR directors and CFOs. Because of time constraints, the CEOs were asked fewer questions, mainly those related to employer/employee expectations and the social compact. There was no expectation that valid comparisons could be drawn between this group and the CFOs and HR directors or between the CEO sample and the total population of CEOs in the United States. However, we were concerned that the “employer” sample we did draw—CFOs and HR directors—might not accurately reflect the top decisionmakers in the nation’s businesses. In other words, the

perspective of CEOs, who had primary responsibility for policymaking within their firms and for ensuring that their businesses stayed afloat and attracted and retained the most qualified workers, might differ from those of their subordinates, however high in the corporate hierarchy those subordinates might be. If there were signs that this was the case, it might suggest that surveys of “employers” need to devote the time and resources necessary to sample CEOs (rather than the HR directors who feature so prominently in such research). As discussed below, there were some differences in the responses of CEOs and the responses of CFOs and HR directors, but the differences were not extreme.

Administrator interviews were conducted by a company called Executive Interviewers using a combination of computer-assisted telephone interviewing (CATI) and paper-and-pencil telephone interviews. A total of 292 CFOs, 390 HR directors, and 66 CEOs were interviewed between May 10 and July 18, 2006. Average interview lengths were 20 minutes for CFOs, 21 minutes for HR directors, and 14 minutes for CEOs.

Employee Sample

The universe for the employee sample was full- and part-time private sector employees ages 25 to 70 working at companies of 20 or more employees. The self-employed were excluded. A sample of households was selected using a random digit dialing method. An eligible respondent was chosen from each household contacted using the most recent birthday method—a random respondent selection that asks to interview the household member who has had the most recent birthday. These household members were screened to identify those who met the employment criteria.

All worker interviews were conducted using CATI. A total of 1,500 worker interviews were conducted between April 28 and July 7, 2006. The average interview length for workers was 17 minutes.

WEIGHTING

Employer Sample

CFO and HR executive data were weighted to known distributions of companies by number of employees, within company sizes of 20 or more employees in the continental United States. These weights were used to correct for the overrepresentation of larger companies that resulted from a requirement for a nearly equal number of respondents from each of the four sizes of companies.

The Dun & Bradstreet database was used to determine the correct proportions of company size subgroups.

The margin of error is +/- 9 percentage points for the weighted HR sample, +/- 10 percentage points for the weighted CFO sample, and +/- 12 points for the unweighted CEO sample (all measured at the 95 percent confidence interval). The margin of error for subgroups is higher.

Employee Sample

Worker data were weighted to known distributions of the population (of Americans ages 25 to 70 employed in jobs other than government or public schools) on the following key demographic variables: age by sex, education, and region. The distributions are based on the U.S. Census Bureau’s *Current Population Survey*, March 2005. These weights were developed to correct for biases that might be introduced by survey nonresponse.

The margin of sampling error for the weighted worker sample is +/- 3 percentage points at the 95 percent confidence interval. The margin of error for subgroups is higher.

ABOUT THE RESPONDENTS

Employer Sample

The CFO and HR director samples were mirror images with respect to sex: The sample of HR directors was 72 percent female and 28 percent male, while the CFO sample was 27 percent female and 73 percent male. The HR directors, with a mean age of 45.5, were somewhat younger than the CFOs, whose mean age was 49.2. Nearly 87 percent of both samples worked for organizations with fewer than 100 employees. The large majority of respondents—82 percent of the HR directors and 90 percent of the CFOs—were employed by a for-profit business. For additional details on these samples, see appendix A, table A-1.

CEOs were older, on average, more likely to be male, from larger firms, and in the health care industry than were CFOs or HR directors. When it came to perspectives on employer/worker expectations, roles, and responsibilities, differences among the three groups were evident, but they were for the most part relatively minor. When differences existed, CEOs did not consistently resemble either CFOs or HR directors.

CEOs were about as likely as the other two groups to agree that employers and workers in the United States have responsibilities to and expectations of each other. They were also similar in their general understanding of what those expectations and responsibilities tend to be. Views on the importance of employers providing specific benefits were generally quite similar. CEOs were nonetheless substantially more likely than either HR directors or CFOs to say that workers (rather than the government or employers) should have the largest role in paying

for retiree health benefits. CEOs were substantially more likely to say employers should have the largest role in paying for health education or wellness information for workers. However, their opinions on who should play the largest role in paying for other benefits (health insurance, pensions, training, and financial planning/education) were generally similar to those of the others. One group difference involved the use of increased profits. As expected, CEOs were far more likely than the CFOs or HR directors to give high priority to increasing capital investment or R&D and somewhat more likely to give high priority to increasing shareholder dividends when deciding how to use an increase in profits. They were somewhat less likely to place high priority on increasing worker benefits.

A larger and more representative sample might have revealed bigger differences, of course, or differences could have narrowed. Nonetheless, the lack of extreme differences between the CEOs and the other two employer samples gives us greater confidence in referring to the CFO and HR directors as “employers.” For a comparison of the responses of CEOs, CFOs, and HR directors on the questions designed to elicit opinions about the social compact, see appendix B.

Employee Sample

The worker sample was 54 percent male and 46 percent female; the mean age was 43 years. Eighty-two percent of the respondents worked for a for-profit employer. Ninety-two percent reported that they have been with their current employer for six months or more. Respondents had median earnings of \$43,300 and a median household income of \$63,500. For additional details on the characteristics of the employee sample, see appendix A, table A-2.

Table A-1. Employer Profile
(weighted, in percentages)

	CFOs n = 292	HR Directors n = 390
Age		
18-24	0	1
25-34	7	14
35-49	43	44
50+	49	37
Refused/no answer	2	4
Total*	100	100
Median	49 years	45 years
Mean	49.2 years	45.5 years
Sex		
Male	73	28
Female	27	72
Total	100	100
Firm size (number of employees)		
20-49	49	44
50-99	37	43
100-499	12	12
500-999	1	1
1,000+	1	1
Total*	100	100
Sector		
For profit	90	82
Not for profit	9	14
Other/can't determine	<1	5

	CFOs n = 292	HR Directors n = 390
Total*	100	100
Industry		
Agriculture/forestry/fishing/related	1	1
Mining	0	<1
Construction	2	11
Manufacturing	17	19
Wholesale trade	6	1
Retail trade	6	6
Transportation and utilities	6	5
Information and information services (telephone/cable/Internet services/publishers)	3	3
Finance/insurance/real estate	9	8
Professional and business services	12	11
Education services	4	1
Health services	9	13
Leisure and hospitality (arts, entertainment, recreation, food services, lodging)	5	7
Service (security/community service/intl. relief and development/fire dept.)	8	7
Other	10	7
None	0	<1
Total*	100	100

* Totals may not sum to 100 due to rounding.

Source: AARP Social Compact Study.

Table A-2. Employee Profile
(weighted, in percentages)

		n = 1,500
Age		
25-34		28
35-49		37
50+		31
Refused		4
Total		100
Median		44 years
Mean		43.3 years
Sex		
Male		54
Female		46
Total		100
Race		
Non-Hispanic white		80
Non-Hispanic black		7
Hispanic		7
Other		4
Refused/no answer		2
Total		100
Marital status		
Married/living as married/with a partner		67
Separated/divorced		14
Widowed		2
Never married		16
Refused/no answer		1
Total		100

		n = 1,500
Education		
Did not complete high school		4
High school graduate		38
Some college, vocational, or trade school		28
Four-year college graduate		18
Some postgraduate work		2
Postgraduate degree		9
Refused/no answer		1
Total		100
Full-time vs. part-time employment status		
Part-time (less than 35 hours)		10
Full-time (35 hours or more)		89
Don't know		<1
Total*		100
Duration of employment		
Less than 6 months		8
At least 6 months but less than 1 year		7
At least 1 year but less than 5 years		29
At least 5 years but less than 10 years		24
At least 10 years		32
Don't know		<1
Total		100
Occupation		
Management, business and financial operations		19
Professional and related		28
Service, including protective services		8
Sales and related		5
Office and administrative support		10
Farming, fishing, and forestry		<1

	n = 1,500
Construction and extraction	1
Installation, maintenance, and repair	7
Production	9
Transportation and material moving	6
Other	4
None	<1
Don't know	0
Refused/no answer	1
Total*	100
Industry	
Agriculture/forestry/fishing/ related	1
Mining	1
Construction	6
Manufacturing	15
Wholesale trade	4
Retail trade	8
Transportation and utilities	5
Information and information services (telephone/cable/Internet services/ publishers)	7
Finance/insurance/real estate	9
Professional and business services	6
Education services	3
Health services	14
Leisure and hospitality (arts, entertainment, recreation, food services, lodging)	6
Service (security/community service/intl. relief and development/fire dept.)	4
Other	12
None	<1
Don't know	0
Refused/no answer	<1

	n = 1,500
Total*	100
Firm size (number of employees, excluding nonpermanent employees)	
20-49	12
50-99	8
100-499	21
500-999	7
1,000+	52
Don't know	1
Total	100
Sector	
For profit	82
Not for profit	12
Other	4
Don't know	<1
Refused/no answer	2
Total	100
Annual earnings, 2005	
Under \$25,000	19
\$25,000 to just under \$50,000	34
\$50,000 to just under \$75,000	21
\$75,000 to just under \$100,000	8
\$100,000 to just under \$125,000	3
\$125,000 to just under \$150,000	1
\$150,000 or more	3
Don't know	—
Refused/no answer	11
Total	100

* Totals may not sum to 100 due to rounding.

Source: AARP Social Compact Study.

Appendix B

RESPONSES OF CEOS, CFOS, AND HR DIRECTORS TO SELECTED QUESTIONS IN THE SOCIAL COMPACT SURVEY

Note: In contrast to the samples of CFOs and HR directors, the very small CEO sample was not randomly selected, so responses from these CEOs cannot be generalized beyond this group of 66. Cost considerations precluded interviewing a large sample of CEOs, even though that might have been the preferred population to sample.

Q2a. Recently, some people have talked about the idea of a social contract or compact between employers and workers. Do you agree or disagree that employers and workers in the United States have responsibilities to each other and expectations of each other?

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Strongly agree	76	70	62
Somewhat agree	18	25	34
Somewhat disagree	3	—	1
Strongly disagree	2	1	1
Don't know (DK)	2	4	1
Total (N)	66	292	390

Q3. As I read each of the following items, please indicate whether you think it is very important, somewhat important, not too important, or not at all important for employers to play this role. How important do you think it is for employers to ...

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Help workers keep their skills up-to-date			
Very important	77	78	75
Somewhat important	18	22	21
Not too important	3	–	2
Not at all important	2	–	–
DK	–	–	2
Provide a pension or retirement savings plan			
Very important	48	49	52
Somewhat important	38	42	37
Not too important	9	7	7
Not at all important	5	1	3
DK	–	–	1
Provide financial planning information and education			
Very important	20	14	14
Somewhat important	42	61	52
Not too important	26	20	25
Not at all important	11	4	7
DK	2	–	2
Provide health insurance			
Very important	83	75	72
Somewhat important	15	24	27
Not too important	2	1	–
Not at all important	–	–	–
DK	–	–	–
Provide health education or wellness information			
Very important	35	24	33
Somewhat important	50	60	50
Not too important	11	12	14
Not at all important	5	2	2
DK	–	–	1
Total (N)	66	292	390

Q3a. And which of these employer roles do you think is the MOST important?

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Provide health insurance	39	41	50
Help workers keep their skills up-to-date	47	51	39
Provide health education or wellness information	5	1	4
Provide a pension or retirement savings plan	5	4	5
Provide financial planning information and education	2	1	*
DK	3	2	2
Total (N)	66	292	390

Q4. As I read each of the following benefits, please indicate whether you think government, employers, or workers should have the largest role in paying for the benefit.

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Health insurance for workers while they are employed			
Government	11	14	12
Employers	76	73	78
Workers	11	11	7
DK	3	3	2
Health insurance for retired workers			
Government	45	54	55
Employers	9	16	17
Workers	42	26	25
DK	3	4	3

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Pensions or retirement savings			
Government	6	7	9
Employers	44	41	49
Workers	42	50	39
DK	8	1	4
Training and education to keep workers' skills up-to-date			
Government	—	1	3
Employers	82	86	79
Workers	17	10	18
DK	2	3	—
Financial planning information and education for workers			
Government	6	9	9
Employers	39	32	35
Workers	55	56	55
DK	—	3	—
Health education or wellness information for workers			
Government	12	19	19
Employers	62	40	49
Workers	26	39	31
DK	—	3	1
Total (N)	66	292	390

Q17. When an organization's profits increase, it often has to decide how to use the increased profits. In your opinion, when profits increase, should organizations give a very high priority, a somewhat high priority, a somewhat low priority, or a very low priority to using the increased profits to ...

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Increase worker pay (base pay or incentive pay)			
Very high priority	30	28	27
Somewhat high priority	52	58	60
Somewhat low priority	14	10	10
Very low priority	5	2	1
DK	—	2	2
Increase worker benefits (including health, training, or retirement benefits)			
Very high priority	14	21	20
Somewhat high priority	52	51	48
Somewhat low priority	21	20	24
Very low priority	12	7	6
DK	2	2	2
Increase shareholder dividends			
Very high priority	24	12	16
Somewhat high priority	35	38	29
Somewhat low priority	26	19	20
Very low priority	5	13	14
DK	11	17	22
Increase capital investment or R&D			
Very high priority	55	36	26
Somewhat high priority	39	43	46
Somewhat low priority	3	10	15
Very low priority	2	5	6
DK	2	6	7
Total (N)	66	292	390

Q18a. Over the next five years, compared to today, do you expect that the federal government will have more, less, or about the same responsibility for ...

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Providing health care coverage to the public			
More	39	48	38
Less	14	19	21
About the same	47	33	42
Helping workers keep their job skills up-to-date			
More	11	20	18
Less	30	25	29
About the same	59	55	53
Ensuring that individuals have adequate income in retirement			
More	17	19	24
Less	35	30	30
About the same	48	51	46
Total (N)	66	292	390

Q18b. Over the next five years, compared to today, do you expect that *workers* will have more, less, or about the same responsibility for ...

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Providing health care coverage for themselves			
More	67	69	73
Less	8	7	5
About the same	26	23	22

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Keeping their job skills up-to-date			
More	53	53	64
Less	5	5	5
About the same	42	42	31
Ensuring that they have adequate income in retirement			
More	67	61	78
Less	11	5	2
About the same	23	35	20
Total (N)	66	292	390

Q19. Earlier in this survey, I mentioned that some people say that most employers and most workers have certain responsibilities to each other and expectations of each other. This idea is sometimes expressed in the following way: Workers who work hard and do a good job can expect certain benefits from their employer such as a safe working environment, health insurance, adequate pay, and a more secure retirement. This understanding of the mutual expectations and responsibilities between employers and workers is sometimes referred to as a “social contract” or “social compact.”

Do you agree or disagree that a social contract or compact such as what I just described exists between most employers and most workers in the United States today?

	Chief Executive Officers (%)	Chief Financial Officers (%)	Human Resource Directors (%)
Strongly agree	30	32	31
Somewhat agree	24	35	36
Somewhat disagree	27	21	19
Strongly disagree	18	9	9
DK	–	3	5
Total (N)	66	292	390



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601 E Street, NW Washington, DC 20049
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November 2009
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