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This report is an updated version of a draft produced in May 2008 for the Rockefeller Foundation. While much has transpired in the U.S. economy since then, the annual statistics used in this report do not lend themselves to updating yet; therefore, this report does not capture the economic downturn and recession in 2008. If this report is updated in 2009, data from 2008 will better reflect the deteriorating economic position of many Americans.

This work greatly benefited from feedback from Marsha Gold, a senior fellow and the project director at Mathematica Policy Research (MPR) for the evaluation of the Rockefeller Foundation’s Campaign for American Workers, and from Deborah Chollet, a senior fellow at MPR. Their comments were instrumental in framing the problem, as well as for identifying the most appropriate data sources for some of the measures contained in this report. All errors and omissions remain the author’s responsibility.
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OVERVIEW

The Rockefeller Foundation’s Campaign for American Workers (CAW) aims to focus attention on a revised Social Contract for the 21st century with the goal of enhancing economic security across the United States. As its name suggests, the CAW focuses on workers, that is, working households and individuals with an attachment to the labor force, even if not currently employed. Economic security, for purposes of the Initiative, is defined in three ways: (1) short-term savings or other means of creating resilience to weather short-term income fluctuations; (2) adequate retirement savings and associated post-retirement income streams; and (3) health insurance coverage to protect workers from the financial risk of illness. The Rockefeller Foundation is especially interested in change that will affect low- to moderate-income workers and, as such, racial and ethnic subgroups that have historically been less economically secure.

The Rockefeller Foundation (RF) has awarded Mathematica Policy Research, Inc. (MPR), a grant to evaluate the CAW, with a particular emphasis on formative timely feedback on strategy and initiative development. To provide context for the evaluation, MPR undertook an analysis of what is known about relevant baseline trends in economic security from publicly available national statistics. This brief summarizes the main findings of that review.

Main Findings and Trends

From the early 1990s to the mid 2000s, the circumstances faced by workers were favorably influenced by a strong economy in the United States—low levels of general inflation, high rates of employment, low interest rates, high rates of homeownership, and declining poverty across all racial and ethnic groups. But now, as the U.S. economy is in the midst of a recession, these conditions are eroding and workers are experiencing very different circumstances.\(^1\)

Even with a strong economy over much of the 1990s and early 2000s, labor market changes left more workers to fend for themselves, with less support from employers. The shift in pension offerings from defined benefit (DB) to defined contribution (DC) plans has elevated the risk of retirement income insecurity. DB plans assure retirees of a fixed annuity payment from their former employer (contingent on meeting requirements about length of service and retirement age), while DC pension payouts depend on the amount contributed by the worker over his or her working years and the wisdom of their investments. Because employers often match the employee’s contribution, these plans promote greater employment mobility for workers, but they require personal saving on the part of the worker and are susceptible to workers drawing down their retirement savings when they change jobs. While many current retirees have DB plans dating to decades past, future retirees are much more likely to rely only on asset accumulation in DC plans.

\(^1\) The National Bureau of Economic Research (NBER), which determines whether the U.S. economy is in a recession, released evidence in December 2008 that the economy has been in a recession since 2007. http://www.reuters.com/article/GCA-Economy/idUSTRE4B05YX20081201.
Health insurance coverage for workers and retirees has also changed since the early 1990s. Offers of health insurance coverage for retirees fell sharply in the last decade; in 1988, 66 percent of firms with 200 or more workers offered retiree health benefits to their workers; this fell to 34 percent by 2002 (Weller, Wenger, and Gould 2004). Because retiree health insurance coverage provides important financial protection from loss of assets to finance retirement, a significant decline in retiree coverage further reduces the prospect of retirement security among older workers.

Employer-based health insurance covers about two-thirds of Americans under age 65, though fewer than half of workers have health insurance coverage from their own employers, instead receiving coverage as a dependent. Those with employer-based coverage are paying increasing amounts out-of-pocket for health insurance premiums and co-payments. These increasing costs likely contribute to the documented decline in employee take-up of offered coverage and increasing rates of uninsurance nationwide.

Evidence on short-term savings is harder to find, and the available statistics paint a less consistent picture of economic security in this area. Increasing health care costs and new obligations to save for retirement may erode the ability of working households to save for emergencies and other short-run needs, especially among households living from paycheck to paycheck. The aggregate U.S. savings rate has been falling and relatively low since around 1980, and may fall even further as rising prices and difficulties in the financial markets affect the purchasing power of Americans. Low interest rates since 2000 have allowed additional people to purchase homes, which may have resulted in increased savings in the form of housing equity in the long run, though with housing values plummeting in many places during 2007 and 2008, these gains may not be realized in the short run.

Overall, national indicators show that certain aspects of economic security of workers have eroded, and it is unclear whether households can adapt to changes in the social contract by altering their spending and savings behavior. The tracking of trends in the indicators discussed in this report will help identify the additional pressures on working households and may point to evidence of improvement in some areas. Understanding the dynamics of economic security may allow the CAW to target its efforts effectively in an evolving environment.

Relevance to the Initiative and Future Work

The information presented in this document may be used for two main purposes related to the CAW. First, it provides context to the Initiative as it is rolled out, identifying areas where workers’ economic security may be eroding or where anecdotes or hypotheses are not borne out in empirical evidence. Second, as the information is updated, it will track trends in economic security over the life of the Initiative. This tracking will help identify macroeconomic trends that might influence the ability of the CAW to have its desired effect (i.e., a recession may stall any improvements in short-term savings over the period). Further, tracking may allow for some analysis of the effect of the CAW. Although it will be virtually impossible to link observed improvements in economic security causally to the activities of the CAW, RF may be able to share responsibility for broad shifts that improve the economic security of workers.
I. BACKGROUND

The Rockefeller Foundation’s Campaign for American Workers (CAW) aims to focus attention on a revised Social Contract for the 21st century with the goal of enhancing economic security across the United States. As its name suggests, the CAW focuses on workers, individuals who are currently employed or otherwise have an attachment to the labor force, and the households they are part of. Economic security, for purposes of the initiative, is defined in three ways: (1) short-term savings or other means of creating resilience to weather short-term income fluctuations; (2) adequate retirement savings and other post-retirement income streams; and (3) health insurance coverage to protect workers from the financial risk of illness. The Rockefeller Foundation (RF) is especially interested in change that will affect low- to moderate-income workers, including racial and ethnic subgroups that historically have been less economically secure. The initiative is not expected to produce changes in national measures of economic security, at least in the short term (three to five years). It is, however, intended to promote research, policy, and product development in areas with the potential to contribute positively to desirable trends in such indicators.

The Rockefeller Foundation (RF) has awarded Mathematica Policy Research, Inc. (MPR), a grant to evaluate the CAW, with a particular emphasis on timely formative feedback on strategy and initiative development. To provide context for the evaluation, MPR undertook an analysis of relevant baseline trends in economic security, drawn from publicly available national statistics. This brief summarizes the main findings from that review. Understanding recent trends in economic security is necessary to understanding the environment that the CAW seeks to shape.²

² This report was originally written in May 2008, when there was speculation that the U.S. economy was heading into a recession, but prior to the housing and financial market turbulence of the fall, and before economic
Trends over the past decade or more provide insight into the direction that economic security might head without any new intervention in the market.

A. METHODOLOGY FOR SELECTING REPORTED MEASURES OF ECONOMIC SECURITY

For this document we assembled the most comprehensive overview of trends in economic security possible, based on publicly reported statistics. To identify relevant statistics, we reviewed the major national data sources with indicators pertaining to economic security. These data come from federal agencies such as the United States Census Bureau and the Bureau of Labor Statistics (BLS); the Federal Reserve; and academic institutions and non-partisan research groups such as Boston College, the Employee Benefits Research Institute (EBRI), and the Kaiser Family Foundation (KFF) (Appendix A lists core sources and selected relevant indicators). In some cases, the data are drawn from administrative records; in other cases, they represent survey responses from workers and their employers. In particular, we chose data that (1) provide a national profile; (2) cover relevant dimensions of economic security; (3) derive from reputable sources; (4) reflect trends over time; and (5) will likely be updated on a regular basis. Such data will make it possible to develop clearly and consistently measured statistics to assess economic trends as CAW evolves.

While the data come from leading sources, they are not perfect. Because we limited our search to publicly available data from reputable sources that collect the same measures consistently over time, we necessarily had to eliminate from consideration some useful and

(continued)

conditions continued to deteriorate. While parts of this report have been updated to reflect those changing conditions, the data used in this report are annual, and therefore do not lend themselves to updating at this point.

3 We also restricted the search to data available at no charge. Much of the real estate information that would have been useful for tracking trends in housing assets was available to the public, but at significant cost.
informative one-time publications of single statistics or trend data. Such information appeared in
journal articles or elsewhere, and provided useful information on economic security, but we did
not expect it to be updated on a regular basis, so we did not include it in this report.

We expect each of the identified data sources to be updated regularly, but the frequency of
updates often varies and public release of the data lags the time of data collection. Many of the
annual series are released within months of their collection, but statistics from survey sources are
collected less frequently (every two to three years) and released to the public at a slower pace. In
view of lags in the available data, the most recent statistics presented here cover 2007, but many
stop well short of that. Thus, the analysis does not reflect the influence of the recent downturn in
the housing market and economy, both of which are likely to have an adverse effect on the
economic security of U.S. workers, at least in the short term.

Finally, we limited our work to secondary analysis of publicly reported statistics that often
do not include detailed subgroup analysis, at all or on a consistent basis. Given that many of the
statistical series contained in this report are subject to analysis by several agencies, it is possible
that some statistics seem inconsistent with other available sources. For example, the fraction of
the labor force with a pension plan depends on how pension coverage is measured—using Form
5500 data, administrative records, or survey data. We have tried to obtain data directly from the
source that collected the information, but in some cases such an approach was not feasible. Notes
associated with each figure indicate how various statistics are measured.
II. U.S. WORKFORCE TRENDS

During the 20th century, the U.S. labor force experienced significant demographic and socioeconomic changes. Labor force participation among women increased dramatically, which consequently increased the number of dual-earner families. At the same time, increases in divorce and child-bearing by single mothers led to an increase in the number of single-parent households with children, often headed by women. In addition, the economy shifted away from manufacturing and toward service jobs and high-skilled occupations in a global marketplace that moved lower-skilled jobs to other countries with inexpensive labor. Related to these changes, many firms consolidated, resulting in fewer small firms as a share of all firms. Unionization rates declined and non-standard employment relationships drew increasing attention. This chapter details some of these trends in recent years. Because many of these changes took root decades ago, much of the more recent data do not show sweeping changes but instead show the picture that has emerged from earlier changes.

A. LABOR FORCE PARTICIPATION

Since the mid-20th century, labor force participation among men has been steadily declining while labor force participation among women has increased (Figure II.1). By 2007, only about 7 in 10 men were in the labor force as compared to almost 9 out of 10 in 1950. On the other hand, in 1950, fewer than 40 percent of women were in the labor force as compared with roughly

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4 While most economists would agree that globalization and outsourcing have been important features in the labor force over the last quarter century, national statistics do not offer a consistent and accurate way to measure these phenomena.

5 Labor force participation includes both the employed as well as people looking for work. See the discussion about measuring unemployment below for a discussion about discouraged workers not being part of the labor force.
6 in 10 women in the labor force by 2007. Labor force participation rates for the economy as a whole averaged between 60 and 65 percent for the last 60 years, a trend that has held also within major racial subgroups—Caucasians, African Americans, and Hispanics (not shown, data from the Bureau of Labor Statistics Employment Statistics).

Increases in women’s labor force participation have coincided with growth in divorce rates and therefore an increase in the prevalence of households headed by working-age single women. In turn, interruptions in labor force participation, more common among women than men, may have led to an increase in the number of households facing periods of economic instability. However, the last few decades have also seen a concurrent and marked increase in the fraction of married-couple households in which both spouses work. Indeed, two-earner couples increased
from 39 percent of all households in 1970 to 61 percent in 1993. This trend offers a mixed message: on the one hand, households with two earners may be better able to weather short-term income fluctuations. On the other hand, many households rely on two incomes to make ends meet and therefore face increased risk of falling behind if either worker loses his or her job.

B. LABOR UNION REPRESENTATION

The original aim of labor unions was to provide bargaining power to workers who otherwise were vulnerable to unfair employer practices. Indeed, labor unions have traditionally succeeded in negotiating relatively high wages and good benefits for their workers. However, as the labor market has shifted from a manufacturing base (traditionally highly unionized) to service-oriented industries, the fraction of workers covered by unions has declined considerably and continued to decline into the 21st century. Nationally, union representation rates fell by more than 10 percent between 2000 and 2007 (Figure II.2). While lower rates of union representation do not necessarily signal that workers’ wages or benefits have suffered as a direct consequence, they are indicative of a changing labor market.

C. FIRM SIZE

Small firms often offer employees a different mix of fringe benefits than large firms, since large firms are able to achieve economies of scale that are not available to smaller firms. While the definition of what constitutes a large firm is somewhat arbitrary, the benefits offered by a firm may depend on federal and state laws that apply only to firms of a certain size. Most

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7 The Health Insurance Portability and Accountability Act (HIPAA) and state law often define small firms as those with less than 50 employees, though information delineating firm size at 50 employees is not available in the Statistics about Business Size.
establishments in the U.S. are small; only 10 to 11 percent of establishments employ more than 20 employees (not shown, U.S. Census Bureau, Statistics about Business Size). Nonetheless, most workers are employed by large firms. Four out of five workers are employed by firms with more than 20 employees, two-thirds are employed by firms with 100 or more employees, and about half of the workforce works for companies with 500 or more employees (Figure II.3). Since 1993, the fraction of employees working for larger firms has risen slightly, such that that more of the workforce has access to the benefits packages offered by large employers.


Note: The numbers in this figure are union representation rates. Union membership rates during the period 2000 to 2007 were consistently 1 to 1.5 percent lower than representation rates. Some workers are represented by a union but choose not to be a union member.
FIGURE II.3

FRACTION OF THE LABOR FORCE BY EMPLOYER FIRM SIZE, 1993-2004

Source: United States Census Bureau, Statistics about Business Size.

D. EMPLOYMENT ARRANGEMENTS

Some recent reports suggest that the number and proportion of workers who are employed part-time or are self-employed has risen markedly. However, this perception is not validated in publicly available national data (Figure II.4). Since 1993, the fraction of the labor force that is self-employed has fallen by nearly 20 percent, and the fraction working part-time has fallen almost as much. Further, the decline in part-time work has been similar regardless of whether the worker reports part-time employment for either economic reasons (i.e., unable to find full-time work or slack economic conditions) or non-economic reasons. That is, part-time

\[\text{For example, a Commonwealth Foundation report considered the intersecting effects of declines in access to employer-sponsored health insurance and the increase in non-standard employment. See http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=324095. It is important to note, however, that the Commonwealth report as well as others aggregates non-standard workers to include part-time, contract, or temporary workers. In this report, we use the convention of the Survey of Contingent and Alternative Employment Arrangements (see below) to separate these categories.}\]
FIGURE II.4
FRACTION OF THE LABOR FORCE ENGAGED IN SELF-EMPLOYMENT AND PART-TIME WORK, 1993-2007


Note: Defined by hours worked in the previous week. Limited to non-agricultural workers. Numbers available from BLS are monthly and seasonally adjusted. Numbers in this figure are annual averages of those from BLS.

Employment status became less common among those who voluntarily choose part-time work and among those who see it as their only employment option. It is possible that firms now offer fewer part-time positions or that part-time work has become less desirable—offering lower wages, fewer benefits, or both.

Jobs that are neither full-time nor directly linked to a particular employer may not provide access to health insurance coverage or retirement plans. Since 1995, the Bureau of Labor Statistics has periodically included a supplement to the February Current Population Survey to measure “Contingent and Alternative Employment Arrangements.” Last fielded in 2005, the supplement gauges changes in employment in non-standard jobs, particularly the fraction of the labor force that may be classified as contingent workers; independent contractors, consultants, or freelancers; on-call workers; or workers at temporary agencies or contract firms.
Since 1995, the only category of non-standard employment that has seen a substantial increase is independent contractors, consultants, or freelancers, a group that now accounts for 7.4 percent of the total labor force as compared to 6.7 percent in 1995 (Figure II.5). The fraction of the workforce made up of on-call workers stayed virtually unchanged. Increases in some categories have been offset by declines in the percentage of the labor force made up of contingent workers (the size of the offset depends on the category of contingent worker analyzed). Overall, it does not appear that an increasing fraction of the labor force works in one of these types of positions that usually are accompanied by diminished fringe benefits.\(^9\)

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\(^9\) One cannot simply sum the categories of non-standard worker categories to arrive at the total number of non-standard workers in the labor force, as some workers may have jobs in more than one category of non-standard work, such as part-time and temporary agency. This overlap, which can result in double-counting across categories, as well as other data issues, means that data on non-standard workers should be interpreted with caution. See Jody Schimmel “How Large is the Nonstandard Labor Force in the U.S.? Understanding the Data and Implications for Trends,” Washington, DC: Mathematica Policy Research, Inc., October 10, 2008.
FIGURE II.5
NON-STANDARD EMPLOYMENT ARRANGEMENTS, 1995-2005


Note: The broadest category of contingent workers includes all workers, including wage and salary workers, who “do not expect their job to last.” The middle definition pertains to “workers including the self-employed and independent contractors who expect their employment to last for an additional year or less and who had worked at their jobs (or been self-employed) for 1 year or less.” The narrowest definition includes “wage and salary workers who expect their jobs will last for an additional year or less and who have worked at their jobs for 1 year or less.”
III. ELEMENTS OF SECURITY: RESILIENCE TO WEATHER SHORT-TERM INCOME FLUCTUATIONS

Any effort to measure household savings requires knowledge of both household income and spending behavior. While many economic surveys succeed in capturing income, few surveys capture spending; no single source currently captures both income and spending in a way that creates a reliable measure of personal savings. Similarly, many economic surveys attempt to measure wealth accumulation but do not distinguish between saving for short- versus longer-term needs. Thus, it is difficult to identify trends in short-term personal savings behavior directly. Instead, savings patterns and the ability of households to weather short-term income fluctuations must be inferred from other data. In this chapter, we look at aggregate trends in measures such as savings, poverty, income inequality, wages, and homeownership to draw a picture of trends in household saving and wealth accumulation for short-term income interruptions.

A. PERSONAL SAVINGS RATES

Aggregate personal savings rates in the United States are measured in two ways: by using the National Income and Product Accounts (NIPA) and by using the Flow of Funds (FoF) measure. While these measures involve some important conceptual differences,\(^\text{10}\) both show that aggregate savings rates have been falling steadily for more than a decade (Figure III.1). Indeed, savings by either measure have been negative since 2005, indicating that personal consumption

\(^{10}\) Additional details about the difference between NIPA and FoF may be found in the EBRI *Databook on Employee Benefits* in the introduction to Chapter 9.
FIGURE III.1
AGGREGATE PERSONAL SAVINGS RATES, 1993-2006

Source: EBRI Databook on Employee Benefits, Chapter 9.

Note: The Bureau of Economic Analysis (BEA) generally produces NIPA estimates, though the Federal Reserve Board uses different numbers to produce its own NIPA measurement that is conceptually equivalent to the BEA measure. Therefore, NIPA estimates may vary with the underlying source data.

has exceeded personal disposable income.11 While aggregate savings rates provide a clue about overall savings, they do not tell us how many or which kinds of households are saving or dissaving.

B. POVERTY AND INCOME INEQUALITY

Since the early 1990s, poverty rates have fallen, both overall and within racial groups (Figure III.2). While a smaller fraction of the population now falls below the federal poverty threshold, this statistic says nothing about the ability of households to weather unexpected economic changes. Many of the households that were once but no longer in poverty may be just

11 For more discussion about the declining U.S. savings rate, see Massimo Guidolin and Elizabeth A. LeJeunesse, “The Decline in the U.S. Personal Saving Rate: Is It Real and Is It a Puzzle?” Available at http://research.stlouisfed.org/publications/review/07/11/Guidolin.pdf
FIGURE III.2
POVERTY RATES, 1993-2006

[Graph showing poverty rates for different groups (Overall, White, Black, Hispanic, Asian) from 1993 to 2006.]

Source: United States Census Bureau, Historical Poverty, Table 2.

above the poverty threshold. In addition, the federal poverty level is widely viewed as a flawed measure of poverty: it does not speak to many dimensions of economic security or to economic security as a broader concept.12

Though fewer households fall below the poverty threshold, income inequality has increased between the nation’s highest and lowest earners. Figure III.3 shows that those with income in the bottom one-fifth of the income distribution (lowest quintile) earn only about 20 percent of what those with income in the fourth quintile (60th to 80th percentile) earn. Income inequality has increased since 1993, as the percentage of income that those in the lower income groups has declined relative to those in the higher groups. In particular, the 5 percent of households with the

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FIGURE III.3

INCOME GAPS BETWEEN LOWER AND HIGHER INCOME HOUSEHOLDS, 1993-2006


Note: Based on upper income amount within each fifth (quintile), except for the upper 5 percent, which uses the lower limit. Current dollars in each year used to calculate percentages.

The highest income has earned much more than they would have if income had been equally distributed. By 2006, those in the fourth quintile of income received just 62 percent of those with the top 5 percent of income.

A simple measure of income inequality is the Gini coefficient, which measures how equally income is distributed within an economy. The Gini coefficient ranges from 0 to 1, where 0 indicates perfect equality in incomes (everyone earns the same amount) and 1 indicates perfect income inequality. Therefore, an increase in inequality is represented by an increase in the Gini coefficient. As displayed in Figure III.3, income inequality has been increasing slightly in recent years. According to the Census Bureau, the U.S. Gini coefficient was 0.428 in 1990 but increased to 0.469 in 2005. This 15-year change is similar in magnitude to the change that
occurred between 1975 and 1990; indicating that households with lower incomes are becoming relatively worse off compared to upper-income households.

C. UNEMPLOYMENT

The unemployment rate measures the fraction of the labor force that is actively seeking employment. Unemployment rates tend to be cyclical; the past 15 years have been no exception (Figure III.4). Prior to 2008, the unemployment rate was remarkably low, particularly among white workers, though it appears to have been rising substantially in mid to late 2008. Many economists view the “natural rate” of unemployment (a term indicating the percent of the labor market in flux due to regular job changes) to be about 6 percent. Both Caucasians and Hispanics had rates of unemployment below that level in 2005 through 2007. Moreover, the fraction of wage and salary jobs covered by unemployment insurance (UI) appeared to remain roughly constant during the last decade (not shown). That is, even in periods when the risk of unemployment has been relatively high, a roughly constant fraction of the population has been eligible for UI. That said, for those who relied on UI, the generosity of benefits varies by state; not all unemployed workers receive equal income protection.

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13 The unemployment rate does not account for people who have left the labor force. In times of economic downturn, it is likely that “discouraged workers” simply stop looking for work; neither the numerator nor the denominator of the unemployment statistics would account for such individuals. BLS offers definitions that describe how the unemployment rate is calculated (http://www.bls.gov/bls/glossary.htm). Indeed, the New York Times recently discussed this issue in the article “Many More Are Jobless Than Unemployed,” April 12, 2008.

14 This is not an official government statistic but rather was calculated to provide a sense of the number of jobs covered by UI. The numerator was computed by using the annual average of quarterly data that show the number of jobs covered by unemployment insurance, as released by the Department of Labor. The denominator was computed by using the seasonally adjusted civilian employment level, as released by BLS under Series LNS12000000.
D. INTEREST RATES

Two interest rates are of concern to most Americans (Figure III.5). The first is the yield on the 10-year Treasury bond, which affects mortgage interest rates. The second is the Federal Funds rate, which is the rate at which banks lend money to each other through the Federal Reserve. While not of direct interest to consumers, the Federal Funds rate drives the interest paid to consumers on savings as well as the “prime” rate which in turn drives interest on consumer credit card debt. From 2000 to 2003, the prime rate declined significantly but then increased by roughly the same amount from 2004 to 2007. This increase has competing effects; savings earn a higher return, but debt is more expensive.

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15 The prime rate, which used to be referred to as “the interest rate,” is usually 300 basis points higher than the Federal Funds Rate on average and is often used in determining interest rates paid on credit cards.
E. HOMEOWNERSHIP

Between 1994 and 2005, rates of ownership increased substantially within each main racial and ethnic group (Figure III.6). Historically, homeownership has been a sign of economic prosperity. However, it appears that the last decade’s rapid increase in ownership may not be sustained, as many mortgages closed in the first part of the 2000s were subprime loans to under-qualified borrowers. As home prices fall and loans with adjustable interest rates, balloon payments, and other abnormal terms mature, many new homeowners may find themselves upside-down on their mortgage, owing more on the loan than their home is worth, with lower assets and more accumulating debt than they would have had if they had never purchased a home.

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16 These increases may also be partly attributable to low and falling interest rates and also to federal programs that encouraged home buying among low-income populations and thus would disproportionately affect minority clients.
While the ratio of home value-to-income has been increasing (Figure III.7), the effect of this is unclear. For owners who purchased their houses at a low price, an increase in the ratio of home value to income is a positive outcome; household net worth will be higher. However, for some homeowners, a high ratio of home value to income signals a problem if they purchased a home with “teaser” low financing rates that can increase sharply. Thus, a spike in home ownership—such as that among Hispanics from 2003 to 2005—may be cause for concern, if it could be the result of sharply adjustable financing. Better data to measure the financial position of households (such as the amount owed on rate-adjustable mortgages) would provide a more precise picture of the financial risk of home-owning households.
FIGURE III.7

RATIO OF HOME VALUE TO INCOME, 1997-2005

Source: United States Census Bureau, American Housing Survey, Table 3.14.

Note: Median home value to income among homeowners.
IV. ELEMENTS OF SECURITY: RETIREMENT SAVINGS

While it is difficult to measure short-term savings, it is somewhat easier to measure the extent to which people are saving for retirement. Data that measure use of savings vehicles that encourage retirement savings are readily available, although information on the retirement account balances is not as easily accessible. This chapter presents measures such as the fraction of firms offering various types of pensions and retiree health insurance as one way to identify how retirement savings might have changed during the last decade. It also details the National Retirement Risk Index (NRRI), a measure recently developed by the Boston College Center for Retirement Research, which assesses household retirement savings relative to a recommended threshold in order to determine the fraction of households that are saving adequately for retirement.

A. PENSION OFFERS, ACCESS, AND TAKE-UP

The last several decades have witnessed a shift away from defined benefit (DB) pension plans to defined contribution (DC) plans. Initially, employers offered DC plans as a complement to DB plans, but firms are increasingly switching to DC plans only. In theory, DC plans with a generous employer match could be just as advantageous to workers as DB plans; nothing inherent in DC plans implies that workers who save will have fewer resources in retirement than if they had a DB plan. However, DC plans place the burden and risk on the individual worker—workers choose whether to participate and how much to save; they may also bear the risk of low investment earnings and unfortunate timing should the value of their retirement assets fall near retirement.
Since 1993, DC plans have become more prevalent, as measured by the fraction of total retirement plans that are DC, as well as the fraction of participants in retirement plans with DC plans (Figure IV.1). In terms of plans, DC plans are the majority of plans; 88 percent of retirement plans sponsored private sector employers in 1993 were DC, rising to 93 percent by 2004. Because many employees were eligible for DB pensions when they began working for their employer, and because some employees either are not eligible for or do not take-up the retirement plan, the proportion of private sector employees covered by pension plan who have a DC plan is lower. However, that fraction is also increasing rapidly, rising from 52 percent in 1993 to 61 percent in 2004.

**FIGURE IV.1**

**PREVALENCE OF DB AND DC PENSION PLANS, 1993-2004**

Source: *EBRI Databook on Employee Benefits*, Table 10.2b. Based on EBRI’s tabulations of the Department of Labor, Employee Benefits Security Administration, *Private Pension Plan Historical Bulletin*, March 2007. These data are based on Form 5500 submissions.
Since 2003, more workers have had access to DC plans than DB plans (Figure IV.2). The proportion of workers who have had access to any type of retirement plan has increased slightly, from 57 percent to 61 percent of workers. Take-up of DC plans is lower than it is for DB plans, meaning that of those who have access, more people with access to DB plans participate than those with DC plans. This could be due to some of the risk differences in plan type, or because many people have to opt-in to DC plan participation, while DB participation is more automatic.

As employers increasingly move to offering only DC plans, take-up will likely remain lower than it would have been with DB plans unless employers begin automatic enrollment of their employees in such plans. The Pension Protection Act of 2006 permits more widespread application of automatic pension features, such as automatic enrollment (where firms can require employees to opt-out of the plan rather than to opt-in) and automatic escalation (which increases the fraction of income contributed to the plan over time).

### B. SOCIAL SECURITY RETIREMENT AND MEDICARE

Virtually all retired Americans rely on Social Security as a significant part of their retirement income. For those with income in the bottom quintile (20 percent) of the retirement income distribution, Social Security represents about 90 percent of total income (Figure IV.3). In general, these retirees have no pensions and few sources of income other than Social Security. The fraction of total income represented by Social Security falls as household income rises, comprising about half of retirement income for the median household.17

As Figure IV.3 shows, Social Security as a percentage of retirement income has fallen slightly in recent years at all levels of household income. Because Social Security benefits are

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17 This relationship is almost mechanical since Social Security payments do not have a lot of variance.
**FIGURE IV.2**

ACCESS AND PARTICIPATION IN RETIREMENT PLANS, 2003-2007

Source: Table 34 of the Monthly Labor Review’s compiled employment statistics. Data taken from results of the National Compensation Survey.

**FIGURE IV.3**

SOCIAL SECURITY AS A PERCENTAGE OF TOTAL RETIREMENT INCOME FOR INDIVIDUALS AGE 65 AND OLDER, 2003-2006

indexed to wages (which have been rising, albeit slowly at lower wage levels), Social Security benefits have risen over time. Therefore, a decline in Social Security as a percent of retirement income indicates that households are accumulating other assets to finance their retirement, making Social Security relatively less important and perhaps signaling an improvement in retirement planning.

As noted above, nominal monthly average Social Security payments have been steadily increasing over time. Figure IV.4 plots the percent of the monthly average Social Security benefit that beneficiaries pay in Medicare Part B premiums.\(^\text{18}\) Medicare Part B provides coverage for doctor’s visits, outpatient surgery, and other non-inpatient care and requires enrollees to pay an annual premium that finances approximately one-third of the total cost of Part B coverage.\(^\text{19}\) Services covered by Part B also generally require a 20 percent co-payment. In 1999, the Part B premium represented 4.3 percent of the average monthly Social Security benefit, or $42.50 per month ($510 annually). By 2006, Medicare Part B premiums had grown to 6.4 percent of the average Social Security benefit, as the premium doubled to $93.5 monthly ($1,122 annually). If Medicare premiums continue to rise at a faster rate than Social Security benefits, they will represent an ever-larger burden on retirees.

Moreover, recent changes to Medicare imply that the fraction of income that seniors devote to out-of-pocket medical costs could rise even more rapidly in the next decade. In 2008, Part B premiums became income-adjusted, so that people with higher incomes will pay higher

\(^{18}\) The Social Security benefit reflected in Figure IV.4 are the nominal monthly primary insurance amount (PIA) for a worker who earned average wages over his life and first claimed benefits at age 65. The amount an individual receives depends on lifetime earnings and also on the age when benefits were first claimed; payments will be lower for individuals who earned less than average wages or for people who claim benefits prior to age 65.

\(^{19}\) See the 2007 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.
MONTHLY MEDICARE PART B PREMIUMS AS A FRACTION OF THE SOCIAL SECURITY AVERAGE RETIREMENT BENEFIT, 1999-2006

Source: Social Security Administration’s Annual Statistical Supplement 2000-2007 (Tables 2A.24-2A.27) and Centers for Medicare & Medicaid Services, various documents.

Note: Average monthly benefit is reported in current year dollars for individuals who retire at age 65 and is based on the primary insurance amount (PIA) for a worker who earned average wages.

premiums. Part D, the Medicare prescription drug coverage program, benefits many seniors, but it is nonetheless designed with a large “doughnut hole”—beneficiaries with moderate to substantial prescription drug costs must pay all prescription drug costs out-of-pocket until they reach a catastrophic level where Medicare pays for additional costs.

C. ADEQUACY OF HOUSEHOLD RETIREMENT SAVINGS

One rule of thumb for retirement saving—though widely debated—is that households should plan for and expect to need at least 70 percent of their pre-retirement income for their retirement
It assumes that costs associated with working will decline and that retired households can switch to producing at home some of the items they purchased while working.

The Boston College Retirement Research Center (RRC) has attempted to refine this general rule, introducing the National Retirement Risk Index (NRRI). The NRRI defines a threshold of income adequacy in retirement and assesses whether households of certain ages and income groups had saved enough to attain that threshold. Households identified as 10 percent below the adequacy threshold were deemed to be “at risk” of being unable to finance an adequate level of consumption in retirement.

Viewed over time, the NRRI indicates that an increasing proportion of households is “at risk” of being unable to finance retirement (Figure IV.5). Between 1995 and 2004, the NRRI increased by 5 percentage points, from 38 to 43 percent. In contrast, in 1983 (the first year for which the source data for the NRRI was available), only 31 percent of households were “at risk.” Thus, in a roughly 20-year period, the probability of that a household is at risk increased by 42 percent.

While 43 percent of all households were identified as “at risk” in 2004, households in the bottom third (tercile) of the income distribution were most vulnerable: more than one-half were identified as unable to afford their retirement needs. However, even among those with the highest incomes, almost one in three (36 percent) were “at risk” of lacking adequate retirement resources.

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20 See, for example, an article by Virginia Reno and Joni Lavery for the National Academy of Social Insurance (http://www.nasi.org/usr_doc/SS_Brief_025.pdf). For more anecdotal evidence, see this article on retirement planning from CNN Money: (http://money.cnn.com/2007/05/03/pf/expert/expert.moneymag/index.htm).

21 Several components—more than can be discussed here—factor into calculation of the NRRI. Additional information may be found at http://crr.bc.edu/special_projects/national_retirement_risk_index.html.
FIGURE IV.5
FRACTION OF HOUSEHOLDS AT RISK OF NOT BEING ABLE TO FINANCE AN ADEQUATE LEVEL OF CONSUMPTION IN RETIREMENT, 1983-2004

Source: Boston College Retirement Research Center’s National Retirement Risk Index.

Note: The NRRI is derived from the Survey of Consumer Finances, which is conducted every three years.

D. INSURANCE COVERAGE OF RETIREES

Many Americans retire before the age at which they become eligible for Medicare coverage. In fact, the median retirement age for men is 62.22 While working, the majority of workers have employer-sponsored health insurance coverage, either directly or as a dependent. Some workers with employer-sponsored coverage who retire before age 65 can rely on retiree health coverage from a former employer. However, the fraction of employers offering retiree health insurance coverage has fallen dramatically in recent years (Figure IV.6), a trend that began well before 1997.23 By 2005, only about 13 percent of firms offered retiree coverage for the period either

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OFFERS OF EMPLOYER-SPONSORED HEALTH INSURANCE COVERAGE TO RETIREES, 1997-2005

Source: Medical Expenditure Panel Survey (MEPS), MEPSNet Insurance Component Table Creator.

Note: These numbers are for firms of all sizes; offers of retiree coverage are higher among larger firms.

before or after a former employee turned age 65. While firms offering such coverage tend to be larger and in many cases employ unionized workers, public-employee plans (both federal and state) are the largest source of retiree health insurance coverage.

Those without employer-sponsored retiree coverage must purchase coverage in the individual market, which can be very costly for older adults, especially if they have even minor health problems. In some states it may be even unavailable to them if they have (or have had) health problems. Purchasing coverage in the years before retirement will require households to save additionally to finance retirement.
Once eligible for Medicare, about one in four retirees purchase Medigap plans to pay costs not covered by Medicare or to cover co-payments for Part B services. One in three retirees has supplemental coverage through a former employer. Those with the lowest incomes may qualify for supplemental Medicaid benefits—and about 13 percent have such coverage. However, 17 percent rely only on Medicare coverage.

With increased longevity comes a longer period during which individuals may require long-term care. Such care is often extremely costly and can exhaust retirement savings, literally impoverishing the spouse who would be a caregiver and/or remains in the community. Medicaid coverage is available for many, but only after drawing down financial resources to very low levels. Nonetheless, few people purchase long-term care insurance, but as the Baby Boom generation ages, the demand for long-term care is likely to increase, potentially eroding the economic security of retirees for the foreseeable future.

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24 This statistic and others in the paragraph are taken from a 2004 report that studied Medigap coverage, found at http://www.ahipresearch.org/PDFs/FinalReportLowIncomeRuralReportFeb2007.pdf.

25 Medicare beneficiaries also have the option to enroll in a Part C plan that integrates Medicare benefits and at least some common supplemental services. Such plans typically charge lower premiums than Medigap coverage but often restrict the network of available providers and how they can be accessed. Depending on the benefits structure, beneficiaries enrolled in such plans may have much less overall financial protection—if they are high users—than if they were covered by a combined Medicare-Medigap supplement (see Marsha Gold “Medicare Advantage In 2006-2007: What Congress Intended?” Health Affairs 26(4): W445-W455, 2007).

26 See the GAO’s “Long Term Financing: Growing Demand and Cost of Services are Straining Federal and State Budgets” (GAO-05-564T) and Jordan Funtner and Elizabeth Dietz, “Long-Term Care Insurance Gains Prominence” (Bureau of Labor Statistics, January 28, 2004).
Rising health care costs and an increase in the number of uninsured Americans have been well-publicized in recent years. This chapter identifies the changes in coverage and costs that have affected working adults, focusing on trends in employer offer of coverage and employee premium contributions.

This chapter considers workers rather than the entire U.S. population. With employers being the primary source of health insurance for non-elderly Americans, people with either a sporadic attachment or no attachment to the labor force are more likely to be uninsured. That is, people who become unemployed, switch jobs, or are unable to work are likely to face periods without insurance coverage, exposing themselves and their dependents to considerable financial risk. The focus here on workers yields a somewhat incomplete picture of Americans’ insurance status, but concentrates on the problems addressed by the Campaign for American Workers.

As noted earlier, the fraction of workers at small firms has declined only slightly in recent years. However, the likelihood that small firms offer health insurance is declining (Figure V.1). While virtually all large firms offer coverage to their employees, fewer than two-thirds of small firms do. Thus, in the absence of change in the composition of small and large firm employment, a decrease in offer rates among small firms could leave a growing share of workers without the possibility of employer-provided coverage.\(^\text{27}\)

\(^{27}\) This does not necessarily mean that workers will be uninsured; some fraction will likely be eligible for dependent coverage from a spouse.
A. OFFERS OF COVERAGE, BY FIRM SIZE

While most small and large firms offer coverage, not all employees are eligible. In fact, offers of coverage by type of employment arrangement show tremendous variation. With health insurance coverage generally a fixed cost per employee, many firms are reluctant to offer coverage to workers who do not work full-time (or above some threshold such as 30 hours per week). Indeed, only about one-quarter of part-time workers and fewer than 5 percent of temporary workers are offered coverage (not shown, data from Kaiser/HRET Survey of Employer-Sponsored Health Benefits). To the extent that shifts occur in types of employment arrangements toward non-standard relationships, offers of employer health insurance coverage might be expected to decline.\(^{28}\)

\(^{28}\) Again, this does not necessarily mean coverage rates would decrease if non-standard workers had dependent coverage.
B. HEALTH INSURANCE COVERAGE OF WORKERS

Approximately half of all workers receive health insurance coverage through their own employer (Figure V.2). Since 2000, employer-sponsored coverage in the workers’ name has declined from 55 to 52 percent. At the same time, individually purchased coverage has also fallen from 8 percent to 7 percent and coverage as a dependent has fallen from 19 percent to 18 percent. Public coverage has increased by about two percentage points since 2000. Together, these changes have led to a three percentage point increase in uninsurance among workers, from 15 to 18 percent.

FIGURE V.2
HEALTH INSURANCE COVERAGE OF WORKERS, BY SOURCE, 1993-2006

Source: EBRI Databook on Employee Benefits, Table 27.5.

Note: These data are derived from health insurance statistics from the Current Population Survey (CPS). Over this period, CPS’s changes to insurance questions significantly affected coverage rates. As of 1997, Indian Health Services coverage was no longer grouped with Medicaid and instead was classified as uninsurance. In 1999, a question added at the end of the insurance questions ascertained whether the respondent was truly uninsured (whereas, before this point, uninsurance was a residual category for those not reporting coverage from any source). In 2001, sampling weights were adjusted to use Census 2000 instead of Census 1990 figures.
Given that offers of coverage are lower in non-standard employment relationships, it is not surprising that full-time workers are more likely than part-time workers to be covered by employer-provided health insurance in their own name (Figure V.3). More than 60 percent of full-time workers have coverage in their own name, compared with less than 20 percent of part-time workers. Wage and salary workers are more than twice as likely as self-employed workers to have employed-sponsored health insurance in their own name, though this partially reflects a difference in how self-employed workers obtain their coverage. Self-employed workers must purchase coverage, either in the individual market, through COBRA, or through associations available to some types of self-employed workers. While this may still be individually purchased, it effectively functions as employer-sponsored coverage for these individuals.\footnote{Indeed, individually purchased coverage is roughly four times higher among self-employed workers than among wage and salary workers (20 percent compared to 5 percent). Combining coverage from own-name employer-sponsored coverage and individually purchased coverage, wage and salary workers in 2006 were 14 percentage points more likely to be insured than self-employed workers.} Regardless of type of employment arrangement, rates of employer-sponsored coverage generally have been declining since 2000.

Self-employed and part-time workers are less likely than wage and salary and full-time workers to have employer-sponsored coverage but much more likely to have employer-sponsored coverage as a dependent (Figure V.4). Rates of dependent coverage among wage and salary and full-time workers are fairly low, as many of these workers are offered coverage from their own employer. However, rates of dependent coverage are substantially higher for part-time workers, suggesting that workers eligible for dependent coverage are more able to take part-time jobs. Rates of dependent coverage, particularly for part-time workers, have been declining in recent years.
FIGURE V.3

FRACTION OF WORKERS COVERED BY EMPLOYER-SPONSORED COVERAGE IN THEIR OWN NAME, 1993-2006

Source: EBRI Databook on Employee Benefits, Table 27.5.

Note: These data are derived from health insurance statistics from the Current Population Survey (CPS). Over this period, CPS’s changes to insurance questions significantly affected coverage rates. As of 1997, Indian Health Services coverage was no longer grouped with Medicaid and instead was classified as uninsurance. In 1999, a question added at the end of the insurance questions ascertained whether the respondent was truly uninsured (whereas, before this point, uninsurance was a residual category for those not reporting coverage from any source). In 2001, sampling weights were adjusted to use Census 2000 instead of Census 1990 figures.
Given that employer-sponsored health insurance coverage for workers (both in their own name and as a dependent) has been declining, it is no surprise that uninsurance rates have been increasing across all types of workers in recent years (Figure V.5). In fact, the increase in uninsurance has been steady; the decline between 1998 and 1999 is largely an artifact of CPS survey design (see note to Figure). In 2006, almost one-quarter of self-employed workers lacked any type of health insurance, as did one in five part-time workers. Even among wage and salary who worked full-time, uninsurance rates have consistently ranged between 16 and 18 percent.

30 The CPS defines an individual as uninsured if he or she lacks coverage for an entire calendar year. Thus, the proportion of the population lacking coverage at any point during the year is substantially higher, particularly among workers who switch jobs or become unemployed.
C. EMPLOYER-SPONSORED HEALTH INSURANCE COSTS

Workers covered by employer-sponsored health insurance are generally responsible for paying a portion of the premium for coverage. Generally, workers are charged one amount for coverage for themselves and a higher amount to cover household members. Since 1999, the share of the total premium paid by workers has remained roughly constant; 14 to 16 percent for single coverage and 26 to 28 percent for family coverage (Figure V.6).
Though the portion of the total premium paid by workers has remained approximately constant, total premiums have been rising rapidly (Figure V.7). Further, the rate of increase in premiums has been consistently higher than price increases generally and, more importantly, exceeds the average annual increase in wages. For example, in 2005, the increase in total premiums was 6.1 percent, which was 64 percent higher than the increase in workers’ earnings and more than twice the rate of overall inflation. Increases in managed care in the late 1990s and early 2000s may have kept this trend in premiums flatter than it might have otherwise been; that is, if traditional indemnity insurance had remained the dominant source of coverage, the share of the premium paid by workers may have increased at an even faster rate. The future of cost sharing between employers and workers will largely depend on how health insurance plans evolve as a mix between managed care and indemnity policies.
FIGURE V.7

INCREASE IN HEALTH INSURANCE PREMIUMS COMPARED TO OVERALL INFLATION AND WORKERS’ WAGES, 1993-2005

Source: 2007 Kaiser Employer Health Benefits Survey, Table 1.1, based on survey data and data from the Bureau of Labor Statistics.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. The average premium increase is weighted by covered workers.
VI. CONCLUSION AND FUTURE STEPS

The statistics highlighted in this paper identify aspects of the economic security of workers that were the most fragile as of 2007. This information allows RF and MPR to better understand the snapshot of economic security at that point; the landscape that the CAW was facing at its inception. Some of the most salient risks to economic security that we identified include:

- The shift from defined benefit to defined contribution pension plans has shifted the risk of retirement savings onto individuals rather than firms. This change, combined with drastic reductions in the offer of retiree health insurance benefits, will increase pressure on households to save for retirement.

- Increasing health insurance costs and declines in health insurance coverage have increased individual out-of-pocket costs for both workers and retirees. Households which experience adverse health events may find it increasingly difficult to pay for necessary health care.

- Many of the conditions that have been favorable to workers since the early 1990s were a result of a strong economy. Changes in macroeconomic conditions could make it more difficult for households to weather short-term income fluctuations, as appears to have occurred during 2008 as the U.S. economy entered a sustained recession.

Based on the needs of the Initiative and the evaluation, key indicators contained in this document could be updated annually during MPR’s evaluation of the CAW, to provide the most up-to-date statistics on the economic conditions facing American workers. Due to data availability and lagged release dates, not every statistic will lend itself to annual updating. However, future documents will provide an annual summary of the current economic status of U.S. workers based on the most relevant and timely information.
APPENDIX A

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<td>Boston College Center for Retirement Research (CRR), National Retirement Risk Index (NRRI)</td>
<td>Survey of Consumer Finances</td>
<td>[link]</td>
</tr>
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<td>IV.6</td>
<td>Offers of health insurance to retirees</td>
<td>Agency for Healthcare Research and Quality (AHRQ)</td>
<td>Medicaid Expenditure Panel Survey (MEPS), Insurance Component</td>
<td>[link]</td>
</tr>
<tr>
<td>V.1</td>
<td>Offers of health insurance, by firm size</td>
<td>Kaiser Family Foundation</td>
<td>Kaiser/HRET Employer Health Benefits Survey</td>
<td>Exhibits 2.1, 2.2, 2.5, and 2.6, [link]</td>
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<tr>
<td>V.2</td>
<td>Health insurance coverage of workers, by source</td>
<td>EBRI Databook on Employee Benefits</td>
<td>Current Population Survey</td>
<td>Chapter 27, Table 27.5, [link]</td>
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<td>V.3</td>
<td>Employer-sponsored coverage of workers in their own name</td>
<td>EBRI Databook on Employee Benefits</td>
<td>Current Population Survey</td>
<td>Chapter 27, Table 27.5 <a href="http://www.ebri.org/publications/books/index.cfm?fa=databook">http://www.ebri.org/publications/books/index.cfm?fa=databook</a></td>
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<td>V.4</td>
<td>Employer-sponsored coverage of workers as dependents</td>
<td>EBRI Databook on Employee Benefits</td>
<td>Current Population Survey</td>
<td>Chapter 27, Table 27.5 <a href="http://www.ebri.org/publications/books/index.cfm?fa=databook">http://www.ebri.org/publications/books/index.cfm?fa=databook</a></td>
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<td>V.7</td>
<td>Annual increase in health insurance premiums compared to overall and wage inflation</td>
<td>Kaiser Family Foundation</td>
<td>Kaiser/HRET Employer Health Benefits Survey</td>
<td>Exhibit 1.1, <a href="http://www.kff.org/insurance/7672/upload/76723.pdf">http://www.kff.org/insurance/7672/upload/76723.pdf</a></td>
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aData links were accessed on May 6, 2008.