

# **The Impact of Labor Market Trends on Health and Pension Benefit Coverage and Inequality**

## **Final Report**

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## Executive Summary

This study examines labor market trends related to the receipt of health and pension benefits as compensation by private sector workers over the 19-year period from 1979 to 1998. This focus on trends in benefit coverage *as compensation* is important, among other reasons, because employer-paid benefits continue to be the primary source of both health insurance and of private retirement savings for the vast majority of Americans under 65 years of age. As policy makers continue to consider targeted and incremental solutions to the problem of millions of Americans without health insurance or adequate retirement savings, a fuller understanding of how labor market trends are affecting work-based coverage and inequality – and anticipating future trends in coverage – will be useful for developing meaningful policy options and proposals for reform.

The study divides into two main sections. The first uses household survey data from the Current Population Surveys between 1979 and 1999 to investigate labor market trends in employer-provided health and pension coverage in the private sector over the past two decades. In order to focus on trends affecting benefits paid as compensation, we define coverage as benefits received from a worker's own employer and therefore ignore health and pension coverage from other sources, as well as offers of coverage that are not taken up. The primary analytical question addressed is how much of the decline in private work-based health and pension coverage after 1979 can be attributed to *structural* shifts in employment (i.e., shifts in the U.S. job mix by industry or occupation) and how much is due to broader-based changes in the rate of coverage *within* detailed industries. A final part of the first section projects rates of health and pension coverage in 2008 using employment projections data from the BLS Office of Employment Projections.

The second half of the study examines trends in the self-reported rate of health and pension coverage by earnings quintile and decile using data from the CPS at five points over the 1979 to 1998 period. The trend is then decomposed by major occupation and industry group to identify significant differences by income group. Because the dollar value of coverage varies greatly across firms and over time, unpublished hourly compensation data from the BLS are used to measure changes in actual employer expenditures for health and pension benefits relative to wages levels by industry and broad occupational “collar.”

### *Trends in Coverage*

Between 1979 and 1998, the share of private sector employees receiving **health** coverage from their own employer fell from 66% to 54.1%, a drop of 12 percentage points.<sup>1</sup> Most of this decline occurred after 1988, when 64.6% of all employees received coverage. For all male workers, coverage dropped from 74% to 60%; for women from 54% to 47%. The hypothesis that the shift towards a service economy is responsible for this decline is not supported by the analysis. We find that about 70 percent of the decline in coverage is attributed to a very broad-based decline within all broad industries and occupational categories. Shifts in the relative share of U.S. employment by industry since 1979 account for only 30 percent of the decline in health coverage, about two-thirds of which is associated with the relative decline of manufacturing. Shifts in the occupational structure were not a significant factor.

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<sup>1</sup> The March 1996 CPS survey, which included both current and prior year data, indicated that 53.6 percent of employees received own-employer health coverage in 1996 (see Table H27). This suggests that the percentage of employees with own-employer coverage may have reached a low point in the mid-1990's before rebounding slightly at the end of the decade.

The study investigates several other explanations for the decline in health compensation:

- The economy-wide decline in coverage would have been worse if not for the effect of increasing firm size in the non-manufacturing sector. A significant increase in average firm size in advancing industries (e.g., services, retail trade) has partially offset the effect of declining firm size and coverage rates in manufacturing.
- The 6.2 percentage point increase in the share of private sector employees who are women has had only a small direct effect on coverage. Nevertheless, one indirect effect deserves attention: working women are nearly twice as likely as men (30% v. 17.5%) to be covered by insurance from another source (usually their spouse). Over time employers in certain industries may perceive disincentives to paying for family health benefits or for health insurance at all.
- Finally, employers have shifted the cost of financing coverage to their employees. The proportion of policyholders whose employer paid the full cost of coverage fell from 45.5 percent in 1983 to 26.6 percent in 1998.

The impact of the changing U.S. job mix on **pension** coverage provides a sharp contrast to trends in health benefit coverage. The share of private sector workers receiving pension benefits as compensation has declined only slightly over the 20-year period since 1979, falling between 2 and 5 percentage points. Although CPS data are not precisely comparable over the entire period, it appears that pension coverage among all private sector workers fell steadily from 47.7% in 1979 (based on the May 1979 CPS), to a low of 39.6% in 1995 (based on the March 1996 CPS), and then rebounded by 3 percentage points to 42.5% in 1998 (based on the March 1999 CPS). Among men, coverage fell from 56% in 1979 to 44% in 1995, then rose slightly to 46.8% in 1998; among women, coverage increased from 35.7% in 1979 to 37.8% in 1998. We find that shifts in the relative share of U.S. employment by industry account entirely for this decline in pension coverage. If the composition of U.S. employment by major industry group had remained the same, the overall rate of pension coverage would be higher now than in 1979.

Two other findings are detailed. First, trends in pension coverage very closely track the division commonly made between declining (“old economy”) and rising (“new economy”) industries. Coverage rates have fallen since 1979 in every goods-producing industry, in Transportation, Communications and Public Utilities (TCU), and in Wholesale Trade, each of which also declined as a share of private sector employment. In contrast, all other service-producing industries *increased* rates of pension coverage since 1979 and – with minor exceptions – also increased their share of U.S. private sector employment. Second, across all industries, the loss of pension coverage has occurred almost exclusively among workers broadly classified as Blue Collar & Service.

### ***Projecting Coverage to 2008***

Shifts in the relative share of total U.S. employment by industry and occupation projected by the BLS for 2008 are likely to have only a small negative effect on overall rates of own-employer health and pension coverage. Using BLS employment projections, both private sector and overall health and pension coverage would decline by only 0.4 and 0.6 percentage points, respectively, by 2008 assuming that 1998 coverage rates by industry and occupation remain constant. This relatively insignificant decline suggests that coverage trends over the next decade will depend on offer and take-up decisions by individual firms and workers and not on structural shifts in the U.S. job mix.

## *Trends in Inequality*

Contrary to the assumption that benefits tend to mitigate wage inequality, we find that U.S. wage inequality is magnified by benefits inequality, at least within the private sector. Health and pension benefit compensation since 1979 have become significantly more unequal, particularly among male workers. Among males, the **health** benefit gap between the lowest and highest paid workers has increased dramatically in the private sector: In 1979, the difference in own-employer coverage between the lowest and highest wage quintiles was 34 percentage points; by 1998 the difference was almost 53 percentage points, an increase of more than 18 percentage points. Coverage fell in every wage bracket, but declined much more in the lowest quintile (down 27 percentage points) than in the highest quintile (down 8 percentage points). Low-wage male workers thus have borne the brunt of the decline in health benefits provided by their employers. This growing inequality trend is economy-wide; shifts in the relative share of U.S. employment by industry appear to account for only about 30 percent of the increase in inequality among male workers since 1979.

For women, there is virtually no correlation between wages and the decline in health benefit compensation since 1979; the top/bottom quintile gap remained roughly 45 percentage points. Because the decline in coverage for women has not been as steep as that for men, the coverage gap between the sexes narrowed over the 19-year period. Coverage of younger workers, both male and female, fell sharply after 1988 – from 69 percent in 1979 to 64 percent in 1988, and then to 47 percent in 1998 for all workers under 30. However, regression analysis indicates that the loss of coverage by younger workers does not explain the broad-based increase in inequality of health benefits over the past two decades.

The dollar value of health benefits shows a similar picture of declining compensation and growing inequality. The average hourly employer expenditure per employee for the private sector as a whole fell from \$1.53 in 1986 to \$1.28 in 1999 (in constant health dollars). The real value of coverage for workers in the lowest third of wage earnings is less than half of that for workers in the highest third, and it has declined at a faster rate.

**Pension** coverage for male workers in the bottom three earnings quintiles fell precipitously between 1979 and 1995, then recovered somewhat by 1998. Among employed males aged 21 to 64, the pension coverage gap between the lowest and highest earnings quintile increased from 48 percentage points in 1979 to 59 percentage points in 1998 (down from nearly 62 points in 1995). Among female workers, the coverage gap increased far less, widening only 2 percentage points between the lowest and highest earnings quintiles (from 48 points in 1979 to 50 in 1998). For women, pension coverage actually increased somewhat in each earnings quintile since 1979.

Pension coverage rates fell disproportionately for workers aged 21 to 44. Whereas 48% of male workers aged 21 to 29 received a pension benefit in 1979, fewer than 31% did by 1998; coverage rates for women in this age category dropped from 35% to 29%. Among workers overall, virtually the entire decline in pension coverage after 1979 occurred among Blue Collar & Service occupations across all industries. The employer cost-of-compensation data show that the ratio between the value of pension benefits paid to workers in the highest and lowest-paying third of jobs increased from roughly 5:1 in 1979 to 6:1 in 1999. For workers in lower-wage job categories, pension contributions fell 35%, from \$0.37 per hour in 1979 to \$0.24 in 1999.

## “H” Tables: Health Benefit Coverage and Inequality Trends

In tables H1-H33 and H41, authors’ calculations are based on Current Population Survey (CPS) data from May 1979, May 1983, May 1988, March 1996 and March 1999. In general, the May surveys estimated current-year coverage, while the March surveys referred to coverage during the previous year.<sup>2</sup> Data used in this study refer to private sector nonagricultural wage and salary workers. Regressions of health coverage on a time trend employ the linear probability model.

**Please note that all mentions of health coverage in these tables refer to own-employer health coverage (health coverage provided by an employee’s own employer).**

**Table H1**  
**Change in Health Coverage, 1979-1998**  
**By Employment Category and Firm Size**

	1979	1988	1995	1998	1979-1998 Change
All Employees	66.6%	64.4%	53.6%	54.1%	-12.5%
Age 21-29	68.9%	63.8%	47.8%	47.1%	-21.8%
Age 30-44	72.8%	72.9%	59.2%	61.9%	10.8%
Age 45-54	74.5%	72.1%	63.6%	67.3%	-7.2%
Age 55-64	73.1%	68.6%	66.4%	66.3%	-6.8%
White Collar	69.3%	69.3%	60.3%	60.3%	-9.0%
Blue Collar & Service	62.9%	59.1%	46.7%	46.3%	-16.6%
Manufacturing					
White Collar	89.2%	87.1%	79.2%	80.6%	-8.6%
Blue Collar & Service	85.4%	83.9%	68.7%	69.5%	-15.9%
Non Manufacturing					
White Collar	64.2%	65.4%	57.3%	57.2%	-7.0%
Blue Collar & Service	48.0%	45.6%	38.0%	37.9%	-10.1%
Firm Size Under 100	43.9%	45.8%	38.9%	39.5%	-4.4%
Firm Size 100-499	76.6%	73.3%	63.0%	62.0%	-14.6%
Firm Size 500-999	80.8%	78.5%	64.2%	66.5%	-14.3%
Firm Size 1000+	87.0%	80.9%	66.3%	64.3%	-22.7%
Firm Size Under 500	50.8%	50.4%	45.5%	45.9%	-4.9%
Firm Size 500+	86.3%	80.7%	66.0%	64.6%	-21.7%
Manufacturing					
Firm Size <500	72.5%	70.4%	61.5%	64.6%	-7.9%
Firm Size 500+	95.3%	94.1%	83.0%	81.4%	-13.9%
Non Manufacturing					
Firm Size <500	46.1%	46.6%	42.1%	42.3%	-2.8%
Firm Size 500+	79.0%	72.3%	60.3%	59.5%	-19.5%

<sup>2</sup> The March surveys, which generally cover employment from the longest job held during the previous year, may understate coverage levels compared to current year estimates. A comparison of the 1995 and 1996 data from the March 1996 current and previous year survey indicates, however, that the resulting difference is small.

## “P” Tables: Pension Coverage and Inequality Trends

In tables P1-P28, authors’ calculations are based on Current Population Survey (CPS) data from May 1979, May 1983, May 1988, March 1996, and March 1999. The May surveys estimated current-year coverage, while the March surveys referred to coverage during the previous year.<sup>3</sup> In tables P29-P34, authors’ calculations are based on unpublished data from the Employer Costs for Employee Compensation (ECEC) Survey from 1986 to 1999.

Data used in this study refer to private sector nonagricultural wage and salary workers. Regressions of health coverage on a time trend employ the linear probability model.

**Table P1**  
**Changes in Pension Coverage, 1979-1998**  
**By Employment Category and Firm Size**

	1979	1988	1995	1998	1979-1998 Change
All Employees	47.7%	42.6%	39.6%	42.5%	-5.2%
Age 21-29	42.7%	33.6%	27.3%	29.9%	-12.8%
Age 30-44	56.1%	50.6%	48.2%	50.8%	-5.3%
Age 45-54	61.5%	55.8%	54.5%	58.5%	-3.0%
Age 55-64	58.4%	53.4%	51.9%	52.9%	-5.5%
White Collar	49.2%	46.1%	46.0%	49.6%	+0.4%
Blue Collar & Service	46.4%	38.5%	31.9%	33.6%	-12.8%
Manufacturing					
White Collar	71.3%	65.8%	67.0%	70.7%	-0.6%
Blue Collar & Service	67.7%	58.8%	51.5%	56.6%	-11.1%
Non Manufacturing					
White Collar	43.3%	41.7%	42.6%	46.4%	+3.1%
Blue Collar & Service	32.1%	27.1%	24.1%	25.3%	-6.8%
Firm Size Under 100	20.3%	18.1%	20.9%	24.2%	+3.9%
Firm Size 100-499	53.4%	43.0%	46.6%	48.7%	-4.7%
Firm Size 500-999	59.9%	48.4%	51.9%	55.0%	-4.9%
Firm Size 1000+	75.9%	66.1%	56.2%	57.3%	-18.6%
Firm Size Under 500	27.3%	22.1%	27.9%	31.1%	+3.8%
Firm Size 500+	74.1%	64.6%	55.6%	57.0%	-17.1%
Manufacturing					
Firm Size <500	41.8%	32.5%	40.0%	47.0%	+5.2%
Firm Size 500+	85.2%	78.3%	73.5%	74.8%	-10.4%
Non Manufacturing					
Firm Size <500	24.2%	20.2%	25.4%	28.2%	+4.0%
Firm Size 500+	64.9%	56.6%	49.6%	51.6%	-13.3%

<sup>3</sup> The March surveys, which generally cover employment from the longest job held during the previous year, may understate coverage levels compared to current year estimates. A comparison of the 1995 and 1996 data from the March 1996 current and previous year survey indicates, however, that the resulting difference is small.

Table P8

**Change in Employment Share and Pension Coverage by Industry,  
1979-1998**

Industry	Employment			Pension Coverage		
	Percent Workforce 1979	Percent Workforce 1998	Change in Share Workforce	Percent Covered 1979	Percent Covered 1998	Change in Percent Covered
Mining	1.1	0.5	-0.6	72.1	63.3	-8.8
Construction	6.5	6.5	0.0	40.3	32.1	-8.2
Metal Manufacturing	4.0	2.0	-2.0	77.2	61.9	-15.3
Machinery x Electrical	3.8	2.4	-1.4	69.7	67.8	-1.9
Electrical Equipment	3.4	2.0	-1.4	71.5	69.1	-2.4
Other Durable Manufac.	7.8	5.3	-2.5	70.3	66.0	-4.3
Nondurable Manufac.	11.8	7.4	-4.3	64.2	55.7	-8.5
Transportation	4.4	4.4	-0.0	57.0	47.8	-9.2
Communications, Utilities	3.1	2.7	-0.4	83.6	71.5	-12.1
Wholesale	5.3	4.6	-0.8	51.3	49.9	-1.4
Eating&Drinking Places	5.1	7.3	2.2	8.3	8.6	0.3
Other Retail	14.0	14.4	0.5	30.6	31.6	1.0
Banking, Finance	3.0	3.6	0.7	63.1	66.3	3.3
Insurance, Real Estate	4.2	3.8	-0.4	43.9	50.3	6.4
Private Household Svc	1.9	1.0	-0.8	1.6	2.4	0.9
Business & Repair Svc	3.9	7.4	3.5	24.7	31.5	6.8
Other Personal Services	2.4	2.8	0.4	17.9	22.5	4.6
Entertainment, Recreation	1.0	2.3	1.2	15.9	24.0	8.2
Medical Except Hospital	3.0	5.5	2.5	24.8	36.1	11.3
Hospitals	3.8	4.0	0.2	55.2	65.9	10.8
Other Professional Svcs	6.5	10.0	3.4	37.5	43.0	5.5

Table P10

**Change in Employment Share and Pension Coverage  
by Broad Occupation, 1979-1998**

Broad Occupation	Employment		Percent Share Workforce	Pension Coverage		Percent Covered
	Percent Workforce 1979	Change in Percent Workforce 1998		Percent Covered 1979	Change in Percent Covered 1998	
Mng, Prof, Tech	23.4	27.6	4.2	56.1	59.8	3.8
Sales, Clerical	25.5	28.2	2.7	42.7	39.6	-3.2
Blue Collar, Service	51.1	44.2	-6.9	46.4	33.7	-12.7

Table P18

**Employees Age 21-64  
Receiving Employer-Sponsored Pension Coverage, 1979-1998**

By Quintile and Decile of Hourly Wages					
	1979	1983	1988	1995	1998
All Employees	53.2%	49.3%	46.5%	44.3%	47.4%
Employees With Known Wages	54.9%	50.6%	47.3%	44.5%	47.6%
<u>By Wage Quintile</u>					
1	22.0%	15.8%	15.4%	12.7%	15.7%
2	42.1%	36.6%	35.3%	30.4%	34.1%
3	54.5%	53.1%	48.1%	45.5%	52.3%
4	72.8%	66.6%	64.3%	61.7%	63.9%
5	78.3%	76.8%	71.7%	71.5%	72.1%
Gap: Quintile 5 - Quintile 1	56.3%	61.0%	56.3%	58.8%	56.4%
<u>By Wage Decile</u>					
1	16.1%	9.6%	9.2%	9.6%	12.0%
2	28.0%	21.4%	21.8%	16.4%	19.6%
3	38.6%	32.3%	30.8%	26.0%	30.1%
4	45.8%	41.1%	39.4%	34.8%	38.2%
5	51.1%	49.7%	43.2%	42.5%	49.0%
6	58.3%	56.5%	52.6%	48.4%	55.2%
7	68.3%	64.0%	58.6%	58.3%	61.8%
8	78.7%	68.9%	68.5%	65.0%	65.8%
9	77.7%	75.1%	70.7%	71.4%	72.2%
10	78.8%	78.5%	72.8%	71.6%	72.1%
Gap: Decile 10 - Decile 1	62.7%	68.9%	63.6%	62.0%	60.1%

Table P19

**Male Employees Age 21-64  
Receiving Employer-Sponsored Pension Coverage, 1979-1998**

By Quintile and Decile of Hourly Wages

	1979	1983	1988	1995	1998
All Employees	61.8%	56.3%	52.4%	48.7%	51.8%
Employees With Known Wages	63.9%	57.9%	53.1%	48.9%	52.0%
By Wage Quintile					
1	32.8%	21.5%	20.5%	14.5%	17.8%
2	52.3%	45.6%	41.1%	34.3%	39.0%
3	70.2%	62.4%	58.0%	51.8%	58.5%
4	79.8%	75.4%	70.6%	67.2%	67.9%
5	80.4%	81.0%	73.3%	76.0%	76.7%

Table P20

**Female Employees Age 21-64  
Receiving Employer-Sponsored Pension Coverage, 1979-1998**

By Quintile and Decile of Hourly Wages

	1979	1983	1988	1995	1998
All Employees	40.1%	40.4%	39.3%	39.4%	42.5%
Employees With Known Wages	41.3%	41.4%	40.2%	39.6%	42.7%
By Wage Quintile					
1	14.4%	10.5%	10.5%	10.6%	14.5%
2	28.5%	27.9%	28.5%	27.4%	30.4%
3	44.6%	44.5%	42.7%	41.8%	47.3%
4	55.0%	56.2%	51.1%	54.7%	56.8%
5	62.2%	65.0%	66.1%	63.5%	64.6%

Table P32

**Hourly Employer Costs for Pensions  
And Their Dispersion**

Distributions Across Broad Occupation(3) by Industry(63) Records

	1986	1991	1995	1999
Mean Hourly Costs for Pensions				
<b><u>Undeclared \$</u></b>				
All Pensions	\$0.71	\$0.62	\$0.66	\$0.83
Defined Benefit	\$0.61	\$0.46	\$0.48	\$0.38
Defined Contribution	\$0.10	\$0.16	\$0.18	\$0.44
<b>Earnings Tertile</b>				
Bottom	\$0.24	\$0.24	\$0.19	\$0.24
Middle	\$0.56	\$0.48	\$0.57	\$0.78
Top	\$1.32	\$1.14	\$1.22	\$1.45
Top-Bottom	\$1.08	\$0.90	\$1.03	\$1.21
Ratio Top/Bottom	5.50	4.75	6.42	6.04
<b><u>1999 Dollars</u></b>				
All Pensions	\$1.07	\$0.76	\$0.72	\$0.83
Defined Benefit	\$0.92	\$0.56	\$0.52	\$0.38
Defined Contribution	\$0.15	\$0.20	\$0.20	\$0.44
<b>Earnings Tertile</b>				
Bottom	\$0.37	\$0.30	\$0.21	\$0.24
Middle	\$0.84	\$0.58	\$0.63	\$0.78
Top	\$1.99	\$1.39	\$1.33	\$1.45
Top-Bottom	\$1.62	\$1.09	\$1.12	\$1.21
Ratio Top/Bottom	5.38	4.63	6.33	6.04
Dispersion Measure 1 (Mean Absolute Difference Between Log(Hourly Pension Costs) and Its Annual Median)	0.84	0.81	0.95	0.82
Dispersion Measure 2 (Mean Absolute Difference Between Log(Hourly Pension Costs/Hourly Earnings) and Its Annual Median)	0.60	0.60	0.68	0.57