Introduction: Benefits for the Workplace of the Future

Olivia S. Mitchell

This volume explores how employee benefits of the future will be shaped by market and sociodemographic forces that are both short- and long-term in nature. Over the near term, economic volatility due to the business cycle and economic shocks has depressed employment prospects, compensation, and benefit offerings. Longer-term developments will be led by demographic trends shifting the age, sex, and ethnic/racial mix of the workforce. Other longer-term factors will result from changes in the household and family characteristics of the workforce, which accompany developments in employees' expectations and the reality of new job and labor market attachment patterns. Long-run changes are also being driven by the demand side of the labor market, as employers increasingly respond to innovations in company requirements flowing from the more high-tech, competitive, and in some ways riskier global economy. Finally, the role for government regulation in the benefits marketplace is dynamic: as almost nowhere else, ever-changing legislative and regulatory expectations keep shareholders and employers, employees and unions, and plan professionals such as actuaries and lawyers, always alert.

This complex of factors promises to dramatically restructure both the nature of jobs and workers' employment patterns, with interesting and probably unexpected implications for how firms compensate their employees and provide them with incentives. In this introductory chapter we introduce ideas by reviewing some of the key changes that shaped the U.S. pay and benefits environment over the last century. Next we briefly survey key recent developments. Finally, we summarize the key contributions of this volume and how they illustrate the path forward for benefits for the future workplace.

Compensation and Employment Trends

Around 1900, the U.S. labor force was employed mainly in agricultural and extractive industries. Workers earned relatively little, and most were

compensated on the piece-rate system (Cappelli 1999). Few employers offered any sort of noncash benefits and formal insurance markets were virtually nonexistent. In the last century, however, patterns of cash as well as noncash compensation changed dramatically (Table 1).

Employers generally provided benefits aimed mostly at protecting against workplace risk, including disability and premature death. Benefits consisted mainly of insurance, provided as a "one-size-fits-all" or "bundled" offer. Such benefits provided workers with insurance, tax-qualified compensation, access to scale economies and risk pooling, and saving mechanisms. Between the mid-1950s and 1980, retirement plans grew rapidly; these appealed to employers since they functioned as important recruiting and retention tools, along with a means to induce retirement when economically practical.

More recently, however, "unbundled" benefits have become more popular, where firms allow employees to exert substantial flexibility and choice over benefit options. The "à la carte" menu of benefit choices enables many to decide whether they want life insurance and how much; what type of health insurance provider they desire (e.g., HMOs, PPOs, traditional indemnity providers), or perhaps no plan at all, in exchange for cash; whether and how much long-term care insurance to purchase; and so on. Increased choice carries over to the retirement plan environment, where workers can elect whether to participate in a 401(k) or 403(b), how much to contribute, and in what to invest the money.

Long-Term Trends in Benefit Dollars

Today, most are familiar with the "three-legged stool" approach to insurance protection from individual, employer, and governmental sources. Of course that notion did not exist in the United States at the turn of the last century. Rather, workers relied on own or family resources for support in the event of health, economic, and other shocks. Community and religious organizations as well as mutual aid societies sometimes played supportive roles. Labor unions were initially reluctant to engage in providing insurance and other benefits, believing instead that the government should provide such protections (Jacoby this volume, a and b).

As the industrial revolution proceeded, real earnings continued to rise. Workers in the new factory environment began to be exposed to, and require protection against, a wide range of workplace risks. Unions' outlook changed gradually, with these organizations initially moving to offer disability and death coverage, and later setting up retirement systems. Unfortunately during the early days union benefit plan solvency was a continuous concern, and numerous plans became insolvent during the Depression. Subsequently, the tight labor market during World War II spurred benefit enhancements, paired with Supreme Court rulings and federal legislation making benefits a legitimate subject of bargaining. The "golden age" of

TABLE 1. Developments in Compensation Packages over Time

	1890	*1925*	*1950*	*1975*	*2000*
Health insurance plans		Company MD	Basic medical (e.g., Blue Cross/ Blue Shield)	Basic medical plus major medical (commercial carrier)	Choice of health plans (including HMO)
				Dental plan	Choice of dental, vision, Rx plan
				Medicare	Medicare + retiree health insurance
Death and disablility plans	Mutual aid associations	Benevolent associations	Fixed-amount life insurance; weekly disability benefit	Life insurance varies with earnings; paid sick leave	Choice of life insurance; personal leave
Retirement plans			Social Security available at age 65	Reduced Social Security benefits at age 62	Full Social Security benefits available at age 67
			Defined benefit plans	Defined benefit plans	Defined contribution + 401(k) plans
Earnings	Wages	Wages	Wages	Wage + bonuses	Wages + supplements linked to performance
Time off		Paid holidays	Paid holidays plus vacation	Paid holidays, vacation, personal leave	Consolidated personal leave plan with choice; unpaid family leave

Source: Adapted from BLS (2001): 60–81.

benefit growth occurred after 1950 and continues to the present, during which time benefits have become an increasingly important component of the U.S. compensation package. Today, benefits represent 27 percent of the national compensation package, with large employers devoting even higher percentages to nonwage benefits (see Figures 1, 2, 3).

Today many employers voluntarily provide a rich array of benefits, including paid leave (e.g., vacations, time off), bonuses and supplements, life and health insurance, retirement benefits, and disability insurance. In addition almost one-third of the benefit package is legally mandated, including payments to support the social security system, workers' compensation, and unemployment insurance, among other programs. Figure 4 indicates

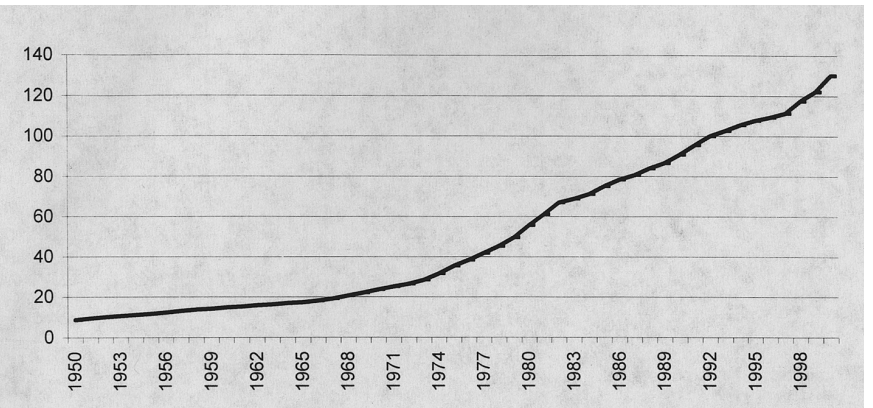

Figure 1. Trend in U.S. manufacturing hourly wage, 1950–2000 (1992 =100). Source: derived from <stats.bls.gov>.

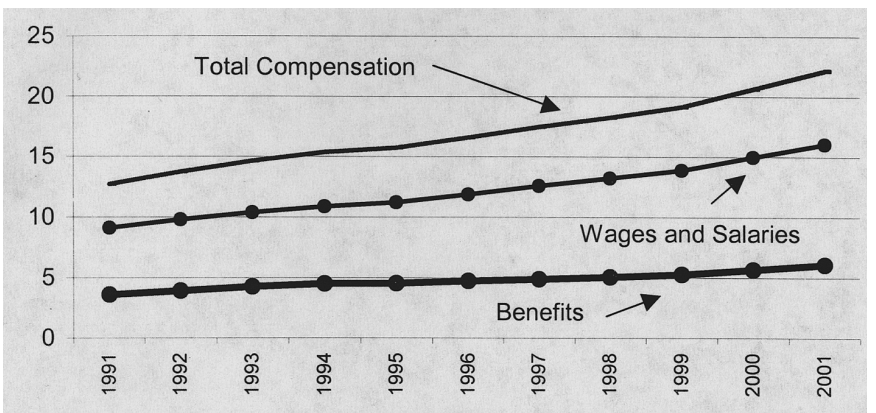

Figure 2. Steady rise in compensation and benefits, 1991–2001. Source: derived from <stats.bls.gov>.

the relative fraction of compensation devoted to each of these broad categories over the last decade.

Recent Changes

Though *real dollars* devoted to employee benefits have continued to rise, there has been little growth in employee *coverage rates* by many voluntarily

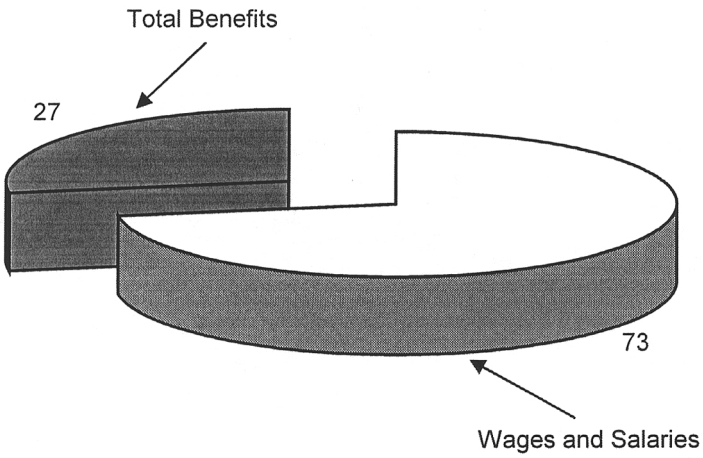

Figure 3. Benefits comprise over a quarter of total compensation. Source: U.S. Department of Labor, Bureau of Labor Statistics (2001).

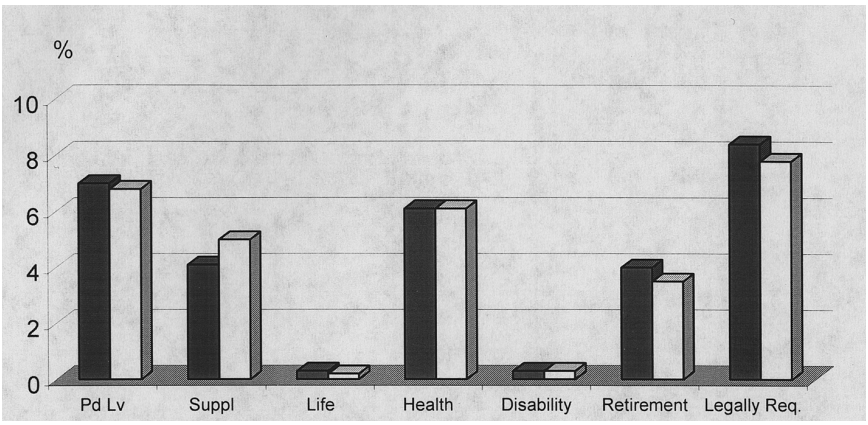

Figure 4. Major benefit components as percentage of total compensation, 1991, 2001. Source: U.S. Department of Labor, Bureau of Labor Statistics (2001).

provided benefits in the United States over the past twenty years. This stasis is in part attributable to changes in employment and in the cost of offering benefits. On the one hand, labor demand has been driven by the need for more skilled workers, but increased marked employment volatility has emerged as companies repeatedly remade themselves to keep up with competition. As a result, job tenure shortened somewhat, particularly for those in managerial, professional/technical, and blue collar jobs (Figure 5). On the other hand, some firms have found that workers are no longer committing to lifetime employment, at times at the expense of company loyalty, as employees grow more attached to careers over employers (Cappelli this volume; Jacoby this volume, a and b). These trends were exacerbated by the rising cost of offering benefits. For instance, a recent study indicated that the administrative costs associated with offering a defined benefit pension plan were more than double the cost of a defined contribution plan, for small firms, and almost 40 percent higher, for larger firms (Mitchell 2000).

Benefits Patterns in the Twentieth Century

During the second half of the twentieth century, employment-based benefits took off in the United States, responding to workers' growing concerns over workplace risk and their concomitant interest in risk management.

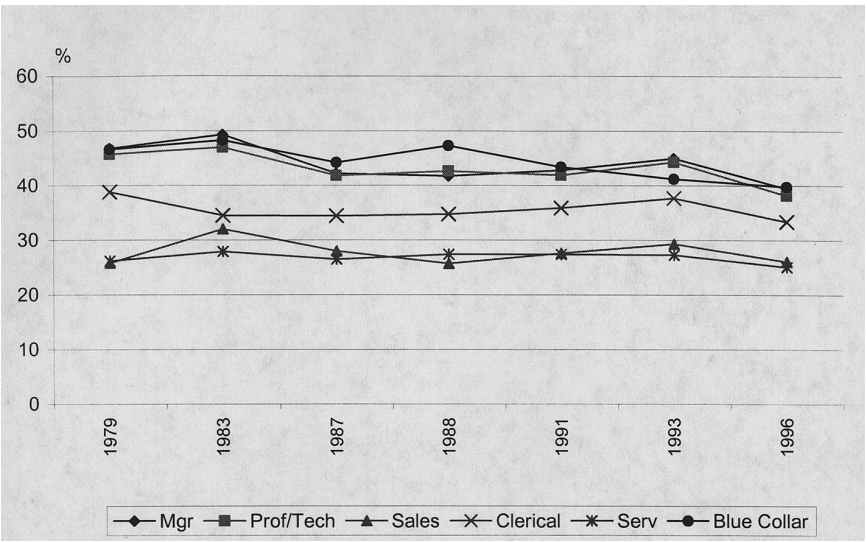

Figure 5. Trends in long-term jobs: employees ages 35–64 with more than ten years tenure by occupation. Source: unpublished data provided by Henry Farber (2001).

Benefits Help Employees and Employers

Benefit growth during the early phase focused on *insurance*, so that the first workplace benefits offered protected against premature death via life insurance and workplace injury via workers' compensation. Risk pooling to cover disability also grew out of this narrow insurance interest.

Not long after, managers began to recognize that key employer-provided benefits could also have spillover effects. These included incentives to attract, retain, and align workers' interests with those of the sponsoring company (Gustman and Mitchell 1992). This alternative perspective offered benefits only to the more long-term loyal employees, a tactic that gave rise to worries over "industrial feudalism" during the 1950s. This approach posited that some benefits prevented long-term workers from leaving their firms, and inferred that this was less than socially optimal. As one example, some saw defined benefit pension plans that lacked vesting provisions as discouraging job change prior to retirement. Subsequent evidence showed that employees with pensions are, in fact, less likely to change jobs than were those lacking such coverage (Even and Macpherson this volume).

Another force driving benefit change during the second half of the twentieth century was employee interest in deferring, reducing, and avoiding taxes. As progressive income taxation became more dominant, benefits became a popular way for higher-paid workers to reduce taxable compensation. For instance, employer expenditures on health insurance premiums are typically pretax, as are contributions up to a limit for disability benefits, retirement plans, and programs such as flexible benefit offerings. Higher earners, in particular, may pay substantially lower lifetime taxes, to the extent they can tax-shelter their compensation in the form of nonwage benefits. This in turn has given rise to all manner of efforts to restrict and limit the tax-qualified status accorded to various benefits, particularly through the nondiscrimination regulations that have proliferated since the passage of the 1974 Employee Retirement Income Security Act (ERISA).

During the first stages of employer-sponsored benefits, they were initially of the "one-size-fits-all" variety. Rather than being linked to specific employees' output levels, as would be true under a piece-rate system, compensation and benefits were tied to jobs rather than the workers in those jobs. This was most evident with the focus of benefits offered to long-term permanent employees; employers typically excluded from coverage all nontraditional employees including part-timers, temporary employees, consultants, contingent workers, and others. This distinction was likely an economically rational one for shareholders, since flexible staff would likely be riskier, and hence more costly to insure, than healthier long-term, better-paid, permanent workers. In addition, firms would likely find it economically sensible to reward long-time workers more generously than short-timers, so as to keep them tied to the firm (Even and Macpherson, this volume). As a result,

most benefits provided until about twenty years ago actively cross-subsidized workers in a wide range of ways. For example, health insurance plans were frequently offered on a uniform basis to all, which subsidized the least healthy at the expense of workers in less risky age/sex/family status and pay-level categories.

Over time, however, benefits providers began to change their offerings, moving away from a single package and instead adopting a more flexible approach. This transition was facilitated by regulatory changes permitting firms to set up "cafeteria plans" where employees could tax-defer a portion of their salaries and use this money to purchase additional time off, health coverage, or other benefits. The transition was also spurred by regulatory developments in the health care marketplace, where companies were required to offer a managed care plan if one was available, even if they still had a more costly traditional fee-for-service plan as one of the choices. Increasingly companies permitted employees to elect no health insurance plan at all, in exchange for cash, if they could demonstrate coverage through some other venue.

A similar move toward choice was seen in the pension arena. Today the modal 401(k) participant has a dozen investment options to elect from during the asset accumulation phase. It is also possible to use these 401(k) funds flexibly over the worklife, contributing or not as the worker sees fit, and borrowing from or even cashing out the account while employed (though with tax consequences). This flexibility continues at retirement, with the retiree being permitted to take the entire rollover in cash, rather than being required to annuitize. More surprising is that this increased flexibility has even permeated the defined benefit pension arena, with participants being allowed to cash out the benefit (Mitchell this volume), and in cash balance plans, they can often direct the investments themselves.

Changing Views of the Government's Role in Benefits

Another issue affecting the provision of benefits in the U.S. labor market has to do with popular views of how insurance should be shared between the government and the private sector. As noted above, prior to the Great Depression, a common view was that the "business corporation, rather than government or mutual organizations, should be the primary source of security and stability in modern society" (Jacoby 2001: 43). However the Great Depression undermined beliefs in the ability of the private sector to offer guarantees against risk, and this skepticism found expression in much New Deal legislation. One specific example was the passage of the Social Security act, establishing a prominent and continuing federal role in old-age and survivor insurance (and later, extended to disability benefits as well). This tension between the appropriate roles for the private and public sectors was expressed by Marion Folsom, the head of Eastman Kodak, who

played an active role in the establishment of Social Security. His position was that the government should provide only basic minimum protection, rather than covering all needs of the working population (Jacoby 2001). As a result of this tension, company-provided benefits came to be called "fringe" payments, and though they now amount to a substantial component of compensation, they still interact with, and work in concert with, a large social insurance sector.

While there is some reluctance about expanding direct government provision of benefits, the political process has favored imposing a wide variety of legal mandates on company compensation practices. Such mandates may appear to be costless to the government, since no direct budgetary appropriations need to be devoted to direct benefit provision. Thus, for instance, legislators have required companies to offer family leave, workers compensation, and unemployment insurance, though little if any direct government support is offered to sustain the programs. One result of such mandates is that job safety and security may be enhanced. Another is that the mandates raise the cost of employing labor and of doing business, reducing employment and compensation (Mitchell and Mikalauskas 1988).

Another trend has been to permit companies the freedom to decide *whether* they wish to offer a benefit, but then to require that certain mandatory services be included if they offer it. For example, some states require employers with insured health plans to cover chiropractors, mental health practitioners, midwifes, and other types of treatment. As a result, firms are discouraged from offering such plans at all and, if they do, they tend to self-insure rather than risk-pool (Jensen et al. 1995). A related development is the government's increasing effort to control and restrict employment and pay as well as benefits practices. This is most evident in the antidiscrimination arena (e.g., the Equal Employment Act, the Age Discrimination in Employment Act), but policy has also sought to shape the structure of tax-qualified benefits packages (e.g., the Employee Retirement Income Security Act, the Consolidated Omnibus Reconciliation Act, or COBRA). Recently the benefits practice has come into the limelight regarding whether benefit plan participants can litigate over denial of health benefits, and how privacy concerns are managed. Even more salient is the degree of concern over company stock held in retirement and other capital accumulation plans pursuant to the Enron Corp. bankruptcy. Evidently the trend has been toward more, rather than less, government intervention in the benefits arena over the last two decades.

Looking Ahead: Benefit Developments in the Near Term

In the near term and even beyond, the labor market will continue to react to business cycle pressures, volatility in the capital markets, and dislocation associated with being in a heightened state of alert. It is evident that during

a recession, some sectors face dislocation (e.g., aviation, tourism), and still others confront financial setbacks that will likely lead to industry downsizing and consolidation (e.g., financial services). Of course some sectors are experiencing both employment and output growth, particularly in the security arena, telecommunications, rail transport, and military-related companies. The events of September 11, 2001 will also continue to shape the path of economic restructuring, with industry retooling and employee as well as customer habits being revisited and revised. As the economy reacts to the perceived need for greater security, it renders some existing capital stock less productive (e.g., airplanes and airports will be used less intensively until security measures are improved). Similarly, current employees may become less productive due to increased security necessitating more time and money devoted to travel, trade, meetings, entertainment, and many other aspects of work and life.

During recessions, downsized and laid off employees tend to lose many of their most valuable employer-provided benefits. Unemployment insurance, while available to most, tends to be relatively short-lived — usually twenty-six weeks in duration. While these benefits could be extended during a prolonged recession, as in the past, many states lack the capability to finance these benefits for the indefinite future. A related concern is job-losers' lack of health insurance coverage. Current U.S. law requires firms to offer extended health insurance coverage to employees losing their jobs for eighteen months, if the former workers elect to pay 102 percent of the average premium. Of course such premiums are expensive for jobless workers that elect to continue the healthcare coverage. They are even more costly to the offering firms, since they must subsidize actual health plan costs over and above the 102 percent charge. How important this benefit proves to be depends on the length of the recession and whether employment picks up soon in sectors offering health care benefits.

Another benefit to become the focus of greater attention going forward is employee pensions (Rappaport, this volume). Stock market volatility tends to erode people's faith in equities as a source of retirement wealth, exacerbated by participants' practice of investing heavily in their own company's stock, now worth a fraction of previous levels. This may generate future demand for safer assets in the pension portfolio, including government bonds, stable value instruments, and deposits. Indeed, when the stock market reopened after the September 2001 terrorist attack, trading volume in 401(k) plans was reported at nine times usual levels (cnn.com 2001). To the extent that laid-off workers still have assets in 401(k) plans, they may also seek to borrow against or redeem the funds, if the recession is prolonged. Defined benefit pension plan sponsors are also at risk since, prior to the recent dive, they held a substantial portion of their pension assets in stocks. In the future they will find that offering these plans will be more costly. In

some cases, required additional contributions to keep plans fully funded could even precipitate plan termination and company bankruptcy. This in turn would call on the government's pension insurance entity, the Pension Benefit Guaranty Corporation, to provide the backstop promised in the event of plan insolvency. Ongoing efforts by many firms in the steel industry to offload "legacy" benefits, mainly health care and pensions for retirees, loom large in this picture.

Longer-Term Benefits Trends

Beyond the next few years, U.S. economic growth is predicted to return to long-term levels (see Figure 6). This will likely imply a return to tighter labor markets, exacerbating the skill shortages beginning to be felt at the end of the 1990s. Demographic changes will exacerbate these trends, including the aging of baby boomers, a continued fall in overall labor force participation rates, and declining fertility rates. On the positive side, migration rates have remained relatively high, and skill levels and worker education have risen. These factors should contribute to higher future labor productivity (Riche this volume; Lofgren et al. this volume). Whether the positive influences will be strong enough to permit older workers to retire early, or whether compensation will be driven up so older Americans will continue to be employed, remains to be seen.

One way in which the labor market has changed substantially of late is that new forms of work arrangements have spread over the last two decades, offering alternative views of the nature of work. Houseman (this volume) documents the rise of a nontraditional workforce — including contingent

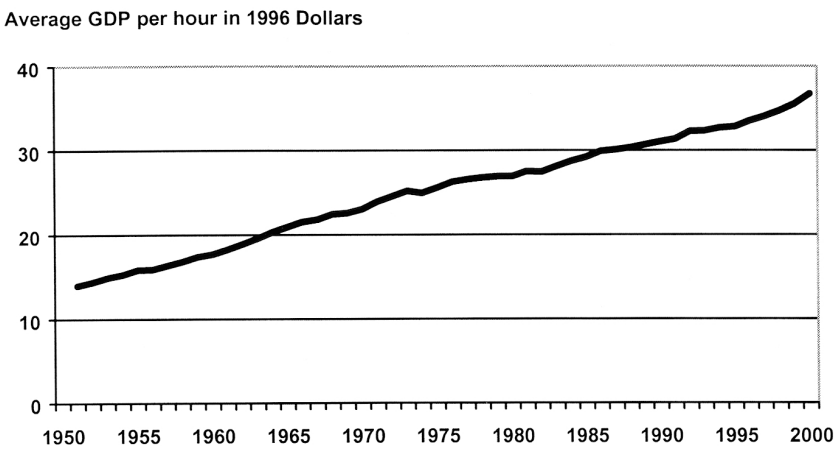

Figure 6. U.S. labor productivity, 1950–2000. Source: Lofgren et al. (this volume).

and temporary workers, part-timers, consultants, and contract employees — where growth rates in the United States have exceeded those of regular, full-time employees. Flexible staffing is now a way of life in the American context, with temporary help agencies now ranking among the largest of our national corporations (Camden this volume). As this process continues, it will be increasingly important to hold down costs while still providing valuable benefits, particularly those related to productivity. Employers may seek to defer vesting and delay retirement if labor market shortages develop more seriously. There will also likely be diminished interest in "family friendly" benefits, since fewer workers in the future will have young children living in their households.

Ultimately, the unbundling approach will increase pressure on employers to provide a widely diversified *menu* of benefit options with fewer cross-subsidies between employees. Workers will tend to "get what they pay for," with pricing being set by the level of benefit provided and the extent of coverage chosen. Thus, for instance, those who desire to do day-trading in 401(k) accounts may be entitled to do so, but they will have to bear a higher administrative fee for the privilege, instead of spreading these costs to the passive indexers. The advent of lower cost benefits administration via global outsourcing should help mitigate the potential cost increases of the menu approach (Sabharwal this volume).

A major concern among benefits specialists is that benefits unbundling may shift risk away from groups better able to bear risk — such as employers and the government — toward individual benefit plan participants, who are less well equipped to do so. This is a major concern when people have health and pension plan coverage without adequate information regarding the risks they shoulder when they elect these plans. One potential response is that there may be a backlash, with plan participants demanding increased government intervention in the form of lawsuits, regulatory oversight, and perhaps even the spread of government pension guarantees.

Some suggest that a substitute for such regulatory overhead might be found in new private sector institutions that can be devised to facilitate workplace risk sharing in nontraditional ways. For instance, Kochan (2000) argues that work "must provide workers and their families security and the ability to improve their standards of living" while recognizing that there is a need for "increased interdependence between family, community, and citizenship responsibilities" (2000: 5). His vision suggests that new networks could "provide the full array of labor market mobility services — networks of contacts and job opportunities, portable pensions and benefits, education and skill accumulation and life-long learning, and perhaps other personal legal and financial assistance as well" (2000: 11). He proposes that these new labor market intermediaries could include unions, community groups, and professional associations, which facilitate mobility and manage the resulting benefits interdependencies. Interestingly Ghilarducci (this

volume) argues that multiemployer pension plans found in both the private and nonprofit sectors already play this role currently, for an important component of the workforce. In order for this model to spread, relaxing uniform and inflexible benefits standards set by governments and unions would also be required.

A Road Map for the Volume

The future workplace will respond to the need for economic restructuring, inevitable demographic shifts, and consequent changes in the relative role of the government versus the private sector. Similarly, so will benefits and compensation packages, if they are to reflect the stakeholders' objectives as well as constraints imposed by the marketplace. In general, the evidence appears to suggest that the composition and structure of benefits packages will continue to evolve in an "unbundled" direction. Today employers use benefits as recruiting and retention tools, as well as a means to induce optimal turnover. To the extent that benefits become less bundled in the future, this will improve labor market flexibility but will also curtail some of insurance aspects that were appealing about group benefits in the past. Employees wishing to maintain the advantages of tax-qualified compensation and the appeal of automatic saving mechanisms will likely be able to do so. On the other hand, increased career mobility and job volatility mean that benefits will be able to do less in the way of scale economies and risk pooling than in the past.

To illustrate these points, we have grouped the contributions to this volume around three topical sections. The first explores developments in the future workplace and outlines implications for benefit coverage and design. Leading off the discussion is Martha Riche's analysis of "The Demographics of Tomorrow's Workplace," where she argues that employees' longer work lives have redefined how we think about career paths in the future. For instance, she argues that work interruptions and changes of career direction are becoming common for both women and men, giving rise to a "portfolio" of workforce attachments and workplace settings. She also suggests that even jobs traditionally thought of as "bad" (e.g., low pay, little security) might be important for older workers seeking to phase into retirement.

The study by William Even and David Macpherson turns the focus of discussion to health and pension plans, examining how these affect productivity outcomes. They posit that the shift from defined benefit (DB) to defined contribution (DC) plans has predictable effects on worker selection, retention, and retirement. For example, they note that investing DC assets in company stock may enhance productivity by linking pay to company performance, though it also could become increasingly difficult to induce retirement when stock performance is below expectations. They also suggest that health care inflation will induce some companies to move toward a defined

contribution health plan format, while others may step back from offering health plans at all.

Marjorie Honig and Irena Dushi continue this theme using empirical analysis to predict how a labor force with increasing shares of women, minorities, and older workers, might behave differently with regard to cash versus non-cash benefits. One surprising finding is that older workers are as interested in saving via their 401(k) accounts, as are younger workers. Less surprising is the finding that older workers seek health insurance more vigorously, particularly if postretirement benefits are offered at group rates. They also see a rising demand for short-term disability insurance but less call for long-term disability coverage. Family-related benefits will change in nature, responding to the needs of workers with fewer children but more elderly parents.

Flexible staffing is likely to influence benefits needs and offerings, and this employment arrangement is becoming increasingly flexible in the U.S. marketplace. In her chapter, Susan Houseman shows that many workers in flexible staffing arrangements are not covered by laws mandating or regulating workplace benefits, which partly explains why employees in these settings are less likely than regular employees to receive benefits such as health insurance and a retirement plan. She also notes that many employers might not specifically move to flexible staffing to limit benefits costs; this is one result of the move toward independent contractors, agency temporaries, on-call workers, and others in flexible arrangements. In reaction, Houseman notes that the IRS and states are making efforts to better enforce existing laws and to crack down on worker misclassification. This helps reduce lost tax revenues and curtails fraud in workers' compensation and unemployment insurance funds.

The final chapter in this section is an examination of trends in company-sponsored retirement plans by Olivia S. Mitchell with Erica Dykes. The only constant in the benefits field seems to be change, and pensions prove no exception. Traditionally, medium and large U.S. firms have been the stalwart providers of employment-linked retirement benefits, but even here, the underlying structure of these plans has not been static. The authors find important changes have taken place in pension financing arrangements, eligibility and benefit formulas, and participant involvement in saving and investment decisions. An ever-evolving legislative environment also influenced pension plan redesign. The authors note that these developments raise questions about the future role of pensions as retirement income vehicles. For example, giving workers access to pension loans and lump sums can undercut productivity enhancement and retirement security objectives.

In the volume's second section, several experts take up broader challenges to benefits and compensation design. First, Anna Rappaport examines how recession and economic volatility influence benefits. She notes that there is much uncertainty as to the severity of any given economic downturn,

but this particular market has some unique features: volatile equity markets, lower than expected interest rates, and uncertain product as well as employment conditions. Rappaport predicts that in the short term, plan sponsors will smooth contributions to mitigate the impact on financial statements. Longer term, they will revisit investment strategies and increase communication to plan participants. Cost pressures may induce some plan sponsors to terminate DB plans, while others may maintain the plans but with greater controls over risk. If equity markets remain depressed, firms that offer DC plans will find that both employer and employee assumptions about retirement security are due for reevaluation. Companies that fail to adapt will likely experience greater turnover, as their employees seek better venues in which to accumulate wealth for retirement.

In their chapter, Eric Lofgren, Steven Nyce and Sylvester Schieber turn to the longer time horizon, asking how business conditions will interact with slower labor growth than experienced in the past. They also believe that employers will have to reconsider traditional workforce practices: for instance, firms wishing to attract and keep women workers will have to address issues that have kept substantial numbers of women from participating in the labor market in the past. This means implementing more suitable work-life solutions for working heads of households, such as on-site childcare, flexible work schedules, and eldercare. Similarly, firms hoping to discourage most valuable employees from retiring will have to reevaluate retirement policies and provide greater access to phased retirement. The authors are concerned that labor needs cannot be met simply by hiring new workers, so that firms will instead have to find ways to obtain greater productivity from existing employees. Employers who manage their human assets using effective communication programs, positive work environments, and compensation systems that reward output and accountability, will enhance shareholder value and prosper.

The broader question of how the labor-management relationship is evolving, and what the benefits implications are, is debated by Peter Cappelli and Sanford M. Jacoby. In a special point-counterpoint (reprinted with permission from the *California Management Journal*), Jacoby contends that many, if not most, employees will want relatively paternalistic companies to help them bear and share risk. He also argues that loyalty and commitment will remain key elements of the workplace relationship, particularly in services where supervision and monitoring are often difficult. As a result, benefits that enhance employee stability will be highly valued by both employers and employees in the future. Taking the other side of the debate, Peter Cappelli proposes that the labor market has changed dramatically, virtually eliminating the expectation of long-term job security. This change is partly due to the fact that companies themselves are not very stable (witness the recent Enron and K-Mart bankruptcies) and partly because workers often lack opportunities for advancement. As a result, he sees compensation and

development opportunities being mainly driven by outside market forces, rather than by traditional in-house goals and principles. The benefits implications of Cappelli's views are very different, since he believes that employees as well as the firms they work for will seek to make transitions between firms easier. This can be accomplished by enhancing benefit portability, making unemployment insurance more flexible, and assisting workers who face permanent job loss.

Our volume concludes with case and sector studies that provide insights into specific company and sectoral practices. Carl Camden from Kelly Services shows that one-third of his temporary employees are actually long-term workers, and they generate nearly 80 percent of the company's revenue. Many of these employees prefer long-term temporary employment since they prefer the free-agent style. Some of them seek employee benefits, and opportunities are available to obtain these; other workers have very different attitudes toward benefit offerings. The key lesson is that there is much heterogeneity among free-agent workers, so no single benefit solution will likely be satisfactory.

Developments on the international front are provided by Manish Sabharwal from the perspective of a global benefits outsourcing provided. Several years of experience managing U.S. benefits plans from India illustrates how dramatically the benefits business has moved away from the traditional hands-on benefits counselor who sat in the human resources office down the hall.

The volume closes with a study by Teresa Ghilarducci on the possibility of multiemployer models for benefit delivery. In her chapter she admits that many firms and workers lack a lifetime relationship, but she finds an exception to this trend in the multiemployer framework. This structure affords employees in a given sector or industry the opportunity to coalesce market power to obtain scale economies for pensions and health care plans. In this case, she believes that jointly managed plans do well to enhance coverage while improving portability and income security.

The author thanks the Pension Research Council for research support and Henry Farber for providing unpublished data. Opinions are solely those of the author.

References

Camden, Carl. This volume. "Benefits for the Free-Agent Workforce."

Cappelli, Peter. 2000. "Market-Mediated Employment: The Historical Context." In *The New Relationship: Human Capital in the American Corporation*, ed. Margaret Blair and Thomas A. Kochan. Washington, D.C.: Brookings Institution Press. 66–101.

Cappelli, Peter. 1999. *The New Deal at Work: Managing the Market-Driven Workforce.* Boston: Harvard Business School Press.

———. This volume. "Career Jobs Are Dead."

Choi, James J., David Laibson, and Andrew Metrick. 2000. "Does the Internet Increase Trading? Evidence from Investor Behavior in 401(k) Plans." NBER Working Paper W7878. September.

cnn.com. 2001. "401(k) Activity Hits Record." <cnnfn.cnn.com/2001/09/18/pensions/ q_retire_401k>

Even, William E. and David A. Macpherson. This volume. "Benefits and Productivity."

Farber, Henry S. 2001. Unpublished data provided to the author.

Farber, Henry S. and Helen Levy. 2000. "Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse?" *Journal of Health Economics* 19, 2: 93–119.

Ghilarducci, Theresa. This volume. "Delinking Benefits from a Single Employer: Alternative Multi-Employer Models."

Gustman, Alan L. and Olivia S. Mitchell. 1992. "Pensions and the U.S. Labor Market." In *Pensions and the Economy: Sources, Uses, and Limitations of Data*, ed. Zvi Bodie and Alicia H. Munnell. Pension Research Council. Philadelphia: University of Pennsylvania Press. 39–87.

Honig, Marjorie and Irena Dushi. This volume. "How Demographic Change Will Drive Benefits Design."

Houseman, Susan N. This volume. "The Benefits Implications of Recent Trends in Flexible Staffing Arrangements."

Jacoby, Sanford M. 2001. "Risk and the Labor Market: Societal Past as Economic Prologue." In *Sourcebook of Labor Markets: Evolving Structures and Processes*, ed. Ivar Berg and Arne Kalleberg. New York: Plenum Press.

———. This volume (a). "Are Career Jobs Headed for Extinction?"

———. This volume (b). "Reply: Premature Reports of Demise."

Jensen, Gail, Kevin D. Cotter, and Michael A. Morrisey. 1995. "State Insurance Regulation and an Employer's Decision to Self Insure." *Journal of Risk and Insurance* 62: 185–213.

Kochan, Thomas A. 2000. "Building a New Social Contract at Work: A Call to Action." Presidential Address to the 52nd Annual Meeting of the Industrial Relations Research Association. Institute for Work and Employment Research, Sloan School of Management, Massachusetts Institute of Technology. Task Force Working Paper.

Lofgren, Eric P., Steven Nyce, and Sylvester J. Scheiber. This volume. "Designing Total Reward Programs for Tight Labor Markets."

Mitchell, Olivia S. 2000. "Developments in Pensions." In *Handbook of Insurance*, ed. Georges Dionne. Boston: Kluwer Academic. 873–99.

Mitchell, Olivia S. with Erica L. Dykes. This volume. "New Trends in Pension Benefit and Retirement Provisions."

Mitchell, Olivia S. and Angela Mikalauskas. 1988. "The Impact of Government Regulation on the Labor Market." In *Mandating Benefits*, ed. Dallas L. Salisbury. Washington, D.C.: EBRI.

Rappaport, Anna M. This volume. "Implications of the Difficult Economy for Retirement Plans."

Riche, Martha Farnsworth. This volume. "The Demographics of Tomorrow's Workplace."

Sabharwal, Manish. This volume. "Developments in Global Benefits Administration."

U.S. Department of Labor. 2001. *Report on the American Workforce*. Washington, D.C: U.S. DOL.