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EXCERPTS

Employee Benefits in Medium and Large Firms, 1986

U.S. Department of Labor
William E. Brock, Secretary

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Chapter 2. Highlights

The great majority of full-time workers within the scope of the survey were provided with health and life insurance and private retirement plans, as well as paid holidays and vacations (table 1). Provisions of many employee benefits differed markedly between white- and blue-collar workers.

Most paid leave provisions studied in the survey were available to a majority of employees. On the average, covered employees could expect to receive:

- Rest periods of 26 minutes a day
- 10 holidays each year
- Vacations of 9 days at 1 year of service, 16 days at 10 years, and 21 days at 20 years
- 3 days of funeral leave per occurrence
- 12 days of military leave per year
- Jury duty as needed
- Sick leave of 15 days per year with full pay at 1 year of service
- Sickness and accident insurance plans averaging about 26 weeks of coverage.

Ninety-four percent of the employees had some protection against temporary loss of income due to illness or accident through either sick leave (46 percent), sickness and accident insurance (24 percent), or both (25 percent). Most employees also had some protection against extended loss of income due to disability:

- 48 percent had long-term disability insurance
- 37 percent were covered under pension plans that provided immediate disability benefits.

Virtually all of the employees studied were participants in health and life insurance programs. Of the participants in these plans:

- 57 percent paid nothing for their own health insurance, and 37 percent paid nothing for family coverage
- All but 1 percent received benefits for hospitalization, surgical care, diagnostic testing, and mental health care
- 71 percent received dental care
- 80 percent were protected against catastrophic health expenses, either through stop-loss provisions in major medical plans or enrollment in health maintenance organizations
- 34 percent would receive some employer-financed health care during a layoff
- 66 percent were covered by an amount of life insurance determined by earnings
- 17 percent received insurance on the lives of their spouses.

Seventy-six percent of the employees in the survey were covered by defined benefit pension plans, which have formulas for determining an employee's annuity:

- 72 percent of participants were in plans with formulas based on earnings, most frequently on earnings during the last 5 years of employment
- Benefit formulas were integrated with Social Security benefits in plans affecting 62 percent of participants
- Common eligibility requirements for a normal, or unreduced, pension were age 65 with no specified length of service, age 62 with 10 years' service, and 30 years of service with no age requirement
- 66 percent of covered workers could retire with a reduced pension at age 55, most commonly after 10 years' service.

Sixty percent of the employees participated in one or more of the following defined contribution plans: Savings and thrift, employee stock ownership, profit-sharing, money purchase, or stock bonus plans. One-third of employees were in plans with cash or deferred arrangements, authorized by sections 401(k) and 403(b) of the Internal Revenue Code. The majority of these employees were in salary reduction plans, where current income is channeled to a retirement plan, and taxes on that income are deferred until benefits are distributed.

- Employers matched employee contributions to savings and thrift plans most frequently at the rate of 50 percent, up to the first 6 percent of earnings
- 28 percent of employees were in payroll-based stock ownership plans (PAYSOP's)
- Employer profit sharing was based on a predetermined formula for 59 percent of participants in such plans, and allocation of profits to individual accounts was generally based on earnings.

Defined contribution plans that restricted employee access to employer contributions were considered retirement plans in the survey. Eighty-nine percent of employees had some retirement income benefits, either through defined benefit plans, defined contribution plans, or both.

Flexible benefits plans and reimbursement accounts were included in the survey for the first time in 1986. While such

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plans have attracted much attention recently, only 5 percent of all employees covered by the survey were eligible for reimbursement accounts, and only 2 percent were offered flexible benefits plans. Reimbursement accounts are used to pay for expenses not covered by a company's regular benefits package, such as insurance premiums, child care, or health care deductibles. A flexible benefits plan was defined in the survey as a plan giving employees a choice among two or more types of benefits.

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Table 1. Summary: Percent of full-time employees by participation[1] in employee benefit programs, medium and large firms,[2] 1986

Employee benefit program	All employees	Professional and administrative employees	Technical and clerical employees	Production employees
Paid:				
Holidays	99	99	100	98
Vacations	100	99	100	100
Personal leave	25	33	35	15
Lunch period	10	3	4	17
Rest time	72	58	69	82
Funeral leave	88	87	87	88
Jury-duty leave	93	96	96	90
Military leave	66	74	72	58
Sick leave	70	93	93	45
Sickness and accident insurance	49	28	35	69
Wholly employer financed	41	22	28	59
Partly employer financed	8	6	7	9
Long-term disability insurance	48	68	60	30
Wholly employer financed	38	52	47	24
Partly employer financed	10	16	13	6
Health insurance[3]	95	96	94	96
Employee coverage:				
Wholly employer financed	54	52	45	61
Partly employer financed	41	45	49	35
Family coverage:				
Wholly employer financed	35	33	28	41
Partly employer financed	60	64	66	55
Life insurance	96	97	96	95
Wholly employer financed[4]	87	87	87	86
Partly employer financed	10	10	9	9
Retirement[5]	89	92	92	87
Defined benefit pension	76	78	78	74
Wholly employer financed[4]	71	73	74	69
Partly employer financed	5	5	3	5
Defined contribution plan	47	53	55	40
Wholly employer financed[6]	33	33	36	31
Partly employer financed	15	20	19	9
Capital accumulation[7]	23	31	29	16
Wholly employer financed[6]	6	6	6	5
Partly employer financed	18	25	23	11

[1] Participants are workers covered by a paid time off, insurance, retirement, or capital accumulation plan. Employees subject to a minimum service requirement before they are eligible for a benefit are counted as participants even if they have not met the requirement at the time of the survey. If employees are required to pay part of the cost of a benefit, only those who elect the coverage and pay their share are counted as participants. Benefits for which the employee must pay the full premium are outside the scope of the survey. Only current employees are counted as participants; retirees are excluded.

[2] See appendix A for scope of study and definitions of occupational groups.

[3] Includes less than 0.5 percent of employees in plans that did not offer family coverage.

[4] Includes participants in noncontributory basic plans who may contribute to the cost of supplemental plans in these benefit areas. Supplemental plans are not tabulated in this bulletin.

[5] The total is less than the sum of the individual items because many employees participate in both defined benefit and defined contribution plans. Defined contribution plans include money purchase pension plans, and profit sharing, savings and thrift, stock bonus, and employee stock ownership plans in which employer contributions must remain in the participant's account until retirement age, death, disability, separation from service, age 59 1/2, or hardship.

[6] Employees participating in two or more plans are counted as participants in wholly employer financed plans only if all plans are noncontributory.

[7] Includes plans in which employer contributions may be withdrawn from participant's account prior to retirement age, death, disability, separation from service, age 59 1/2, or hardship. Excludes pure cash profit sharing, stock option, and stock purchase plans.

NOTE: Because of rounding, sums of individual items may not equal totals.

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Chapter 6. Defined Benefit Pension Plans

In medium and large firms, defined benefit pension plans are the predominant type of employer-sponsored retirement plan. These plans use formulas for calculating retirement benefits and obligate the employer to provide the benefits so determined. In 1986, three-fourths of the employees had defined benefit pension plans—down slightly from earlier years. (Other sources of retirement income, such as savings plans, have been growing in importance recently. They will be discussed in chapter 7, "Defined Contribution Plans.")

Benefit formulas (tables 54–58). Earnings-based formulas applied to 72 percent of the employees covered by defined benefit pension plans. Such formulas pay a percent of the employee's annual earnings per year of service (for example, 1 percent of earnings times 30 years of service). Variations are common, however, in the approach to calculating annual earnings and the rate paid per year of service. For 79 percent of the participants with earnings-based formulas, pensions were based on earnings in the final years of employment (terminal earnings formula); for the remainder, an average of career earnings was used. Terminal earnings were defined as the average over a 5-year period for 84 percent of the participants with terminal-earnings formulas. Such formulas usually designated the 5 consecutive years with the highest earnings out of the last 10 years before retirement.

Three-fifths of participants with formulas based on career earnings were in plans having benefit rates per year of service that varied according to service, earnings, or age. Career-earnings formulas typically applied one rate to annual earnings below a specified amount, and a higher rate above the amount. (This is often done to lower employer costs for wage levels upon which Social Security taxes are paid, as described in the next section.) For example, a plan will credit an employee with 1 percent of earnings up to the first $12,000 in each year of service plus 1.5 percent of the earnings exceeding that amount. The annual pension payment is the sum of these credits.

Formulas based on terminal earnings typically provided participants with a flat percent of earnings per year of service. For plans providing flat rates per year of service, the rates averaged 1.62 percent for terminal-earnings formulas and 1.66 percent for career-earnings formulas. This slightly higher benefit percentage for career-earnings formulas is more than offset by the lower earnings to which these formulas are applied.[17] Conversely, benefits under a terminal-earnings formula are more likely to be offset by a retiree's Social Security payments. (See next section.)

Most plans that did not use a percent-of-earnings benefit formula specified a dollar amount to be paid for each year of service, such as $15 monthly per year of service, yielding a pension of $450 after 30 years. Dollar-amount formulas applied to one-fourth of pension plan participants, continuing a decline from 32 percent in 1981. While the dollar amount in these formulas sometimes varied with an employee's earnings or service, the predominant method was to multiply a uniform (single) dollar amount by years of service. Uniform amounts credited per year averaged $15.51 a month.

The basis of pension payments differed sharply by employee group. While a large majority of white-collar participants were provided earnings-based pensions, dollar-amount formulas applied to nearly half of the blue-collar participants.

Thirty-seven percent of all pension plan participants would receive benefits from either primary or alternative formulas, whichever was greater. Alternative formulas were often included to provide at least a minimum level of benefits for persons with short service or low earnings. For example, a plan may have a primary formula of 1.25 percent of average career earnings times years of service, and an alternative formula of $15 a month for each year of service. In this case, the alternative formula would provide a higher benefit for persons with average career earnings of less than $14,400 a year.

Private benefits and Social Security payments (table 59). Employers providing private retirement plans also share the cost of Social Security coverage equally with their employees. Because many plan sponsors feel that private pension and Social Security benefits should not be duplicative, formulas for calculating private pensions often contain an offset provision requiring part of the Social Security pension to be subtracted from the annuity. Other plans have "excess" formulas that apply lower pension benefit rates to an employee's earnings below a specified level (which is either the Social Security taxable wage base—usually the career

[17] An employee who worked 30 years with a 5-percent pay increase each year and who earned $25,000 in the last year of service would have career average earnings of $13,451 a year, while the final 5-year average would be $22,730. The difference between the career and final averages lessens with shorter lengths of service.

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average—or a dollar amount equal to a past taxable wage base).

Sixty-two percent of all pension plan participants had benefit formulas "integrated" with Social Security. Terminal-earnings formulas of integrated plans tended to adopt the offset approach, while career-earnings formulas tended to incorporate the excess approach. Dollar-amount formulas were rarely coordinated with Social Security; blue-collar employees, therefore, were less likely to have integrated benefits.[18]

Maximum benefit provisions (table 60). The Employee Retirement Income Security Act (ERISA) and subsequent amendments place ceilings on the size of annual pension benefits from defined benefit plans. These restrictions largely affect only highly compensated employees. Many plans, however, have provisions that restrict benefit levels for all participants. For example, 36 percent of participants were in plans that limited the number of years of service included in benefit computation; maximums of 30 or 35 years were most common. For 7 percent of the participants, annual pensions (usually including Social Security payments) could not exceed a specified percent of average annual career or terminal earnings.

Replacement rates (table 61). A commonly used indicator of pension adequacy is the portion of a retiree's final year's earnings that is "replaced" by the retirement benefit. To calculate replacement rates for 1986 pension plans, the maximum private benefit under each surveyed plan, not reduced for early retirement or joint-and-survivor annuity, was determined under several assumed combinations of final annual earnings and years of service. These benefit levels were then expressed as percents of earnings in the last year of employment. The calculations assume employees retired on January 1, 1986, and final earnings are for 1985.[19]

Table 61 presents average replacement rates resulting from defined benefit pension plans alone and in combination with primary Social Security benefits (that is, excluding benefits for spouse and other dependents).[20] For private pension formulas that are integrated with Social Security and for computation of Social Security benefits, the worker is assumed to have retired at age 65 and to have paid into Social Security for 40 years. (For workers who reached age 65 in 1986, however, the Social Security benefit was the same for workers with similar final earnings who had 26 years or more under Social Security.)

Chart 4 displays replacement rates based on 30 years of service for each of the earnings assumptions. Except for the lowest earnings assumption ($15,000), the private pension plan replaced on average about 28 percent of the final year's earnings; the rate for $15,000 was about 32 percent.

When combined with primary Social Security payments available at age 65, however, replacement rates differed substantially as earnings increased. They ranged from nearly three-fourths at the lowest assumed level of earnings to just over one-half at the highest earnings level computed. Except for the two highest assumptions ($35,000 and $40,000), the primary Social Security benefit payment was larger than the average private pension.

Although private pension replacement rates (excluding Social Security) for white-collar employees remained fairly constant at higher earnings levels, rates for blue-collar workers dropped by almost a third. Table 54 provides an explanation: Nearly half of all production workers have dollar-amount formulas, paying workers with the same years of service the same benefit, regardless of earnings history. The result is a steady decrease in the replacement rate as final earnings increase. Average replacement rates for earnings-based formulas, on the other hand, increase slightly with higher final earnings.

While average replacement rates show a consistent relationship between pensions and service, earnings, and type of formula, the range of pensions payable is quite broad. Chart 5 shows that calculated monthly pensions for employees retiring with 20 or 30 years' service and final earnings of $30,000 varied from less than $200 to $1,000 or higher.[21]

Normal retirement (table 62). Although unreduced Social Security benefits are not available before age 65, most private pension plan participants were not required to work to that age for full private pensions (normal retirement). Thirty-six percent were covered by plans that specified age 65 as the earliest age for normal retirement. While employees in plans specifying age 65 usually did not have to satisfy a minimum service requirement, plans permitting normal retirement at earlier ages typically had length-of-service requirements. One to ten years' service were required for half of the 36 percent of participants who could first retire at ages 60 through 64; 20 or more years were typically needed for retirement at ages 55 through 59 (affecting 4 percent of participants).[22]

Another 11 percent of participants could qualify when the sum of age plus service reached a specific amount, such as

[18] For a comprehensive analysis of formulas with Social Security integration characteristics, see Donald Bell and Diane Hill, "How Social Security Payments Affect Private Pensions," *Monthly Labor Review*, May 1984, pp. 15-20.

[19] Earnings histories, necessary for applying the pension formulas, were constructed for each final earnings level based on data provided by the Social Security Administration.

[20] The Social Security spouse benefit, which is 50 percent of the primary benefit, is paid in addition to the primary benefit while both partners are alive (unless the spouse is eligible for a larger primary benefit).

[21] For a more complete discussion of replacement rates, see Donald G. Schmitt, "Today's Pension Plans: How Much Do They Pay?" *Monthly Labor Review*, December 1985, pp. 19-25.

[22] In 1980, 45 percent of participants had to work until age 65 to be eligible for an unreduced benefit. Gradual liberalization of retirement requirements has contributed to an increase in average replacement rates for both normal and early retirement since 1974, as observed by Donald Bell and William Marclay, "Trends in Retirement Eligibility and Pension Benefits, 1974-1983," *Monthly Labor Review*, April 1987, pp. 18-25.

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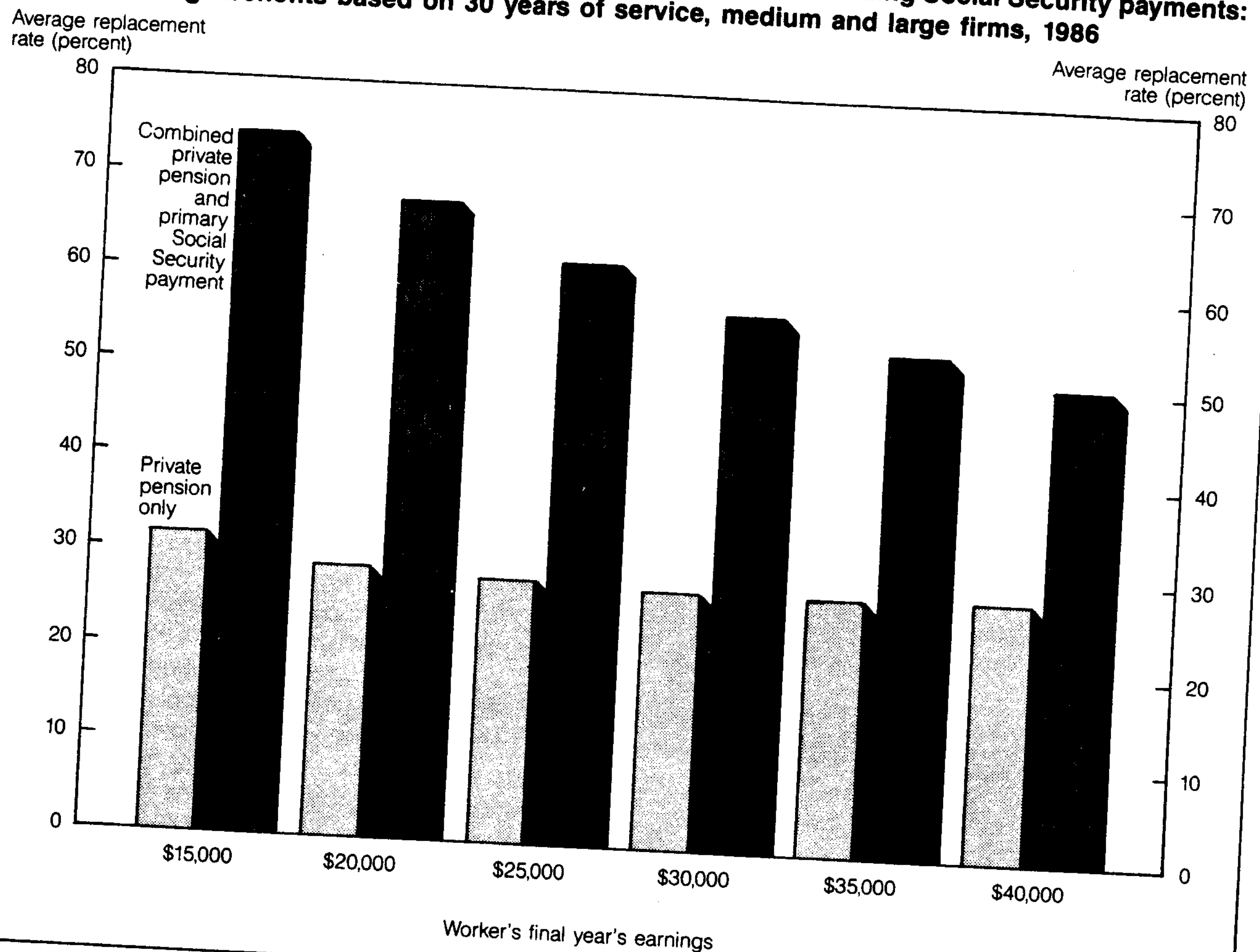

85. A minimum age of 55 was generally included for meeting these requirements. Minimum lengths of service were less common.

Thirteen percent of all participants were covered by plans permitting normal retirement at any age with 30 years of service; the major concentration (19 percent) was among production workers. Plans that featured such a provision almost always offered other normal retirement opportunities at specified ages with lower service requirements. (If a plan had alternative age and service requirements, the earliest age and associated service were tabulated for this survey; if one alternative did not specify an age, it was the requirement that was tabulated.)

Early retirement (tables 63 and 64). Virtually all of the employees participating in a pension plan could retire before normal retirement age and receive an immediate, reduced pension. In some cases, employer approval was required for such early retirement benefits.

The amount of an early retirement pension is lower for two reasons: First, fewer years of service are applied to the benefit formula because an employee has not worked until normal retirement age. Second, because benefits begin at an earlier age, the retiree is expected to receive plan payments over a longer period of time.

The normal benefit is reduced by a percentage (factor) for each year between the actual and normal retirement ages. If a plan's normal retirement age is 62, for example, and the reduction factor is 6 percent, a person retiring at age 59 would receive 82 percent of the normal formula amount (100 percent minus 3 years times 6 percent). In addition to the 18-percent reduction for early retirement, the annuity in this example would be based on fewer years of service and possibly lower earnings than at age 62.

The reduction factor may be uniform or may vary by age or service. Reduction factors that differed for each year of early retirement, based on the employee's life expectancy at that age (actuarial reductions), were used in plans covering one-eighth of participants with early retirement opportunities. Other methods of reducing benefits approximate an actuarial reduction. For example, for three-eighths of the participants, the reduction factor differed for age brackets of

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ers participating, to provide surveywide estimates for each example. As shown in the tabulations below, the length of retirement was a significant factor in determining the size of pension adjustments, with larger increases paid to persons retired longest. Also where maximum increases were specified, retirees with higher original pensions had lower percentage increases.

Monthly pension on December 31, 1980	*Years of retirement*		
	5	*10*	*15*
$250:			
Average pension on December 31, 1985	$292	$319	$344
Percent change, December 31, 1980-85	17	27	37
$750:			
Average pension on December 31, 1985	$832	$914	$988
Percent change, December 31, 1980-85	11	22	32

The BLS Consumer Price Index for All Urban Consumers (CPI-U) rose 31 percent over the 5-year period studied.[26] For retirees in plans with ad hoc adjustments, and with monthly pensions and years of retirement shown above, average adjustments ranged from 35 to 119 percent of the price rise.

Only 3 percent of all participants were in plans that provided for automatic increases in pension benefits to compensate for increases in the cost of living. In most instances, these cost-of-living-adjustment formulas provided for benefit adjustments proportional to increases in the BLS Consumer Price Index. Nevertheless, ceilings on individual increases limited periodic adjustments to 4 percent or less for most of the covered workers. Nearly all of the affected participants were in plans calling for annual adjustments. Lifetime ceilings on increases were uncommon.

For the first time, the survey collected information on the incidence of lump-sum payments made to current retirees. In 1986, 6 percent of participants were in plans which gave retirees at least 1 lump-sum payment during the 1981-85 period. These payments ranged from $100 to $1,000. Retirees receiving these lump sums normally also received permanent pension increases between 1981 and 1985. In fact, they often received both adjustments in the same year.

Vesting (table 68). Even when an employee leaves an employer without qualifying for either a normal, early, or disability retirement benefit, a pension may ultimately be paid. If certain conditions are satisfied at the time of separation, workers have a vested interest in all or a portion of their accrued pension benefits and may begin receiving benefits years later.

Although all pension participants are entitled to vested benefits under the Employee Retirement Income Security Act of 1974 (ERISA), some variations exist as to when this occurs. Most pension plans require 10 years of service before benefits are guaranteed. While over two-thirds of the participants were covered by the 10-year rule regardless of age, one-sixth were affected by the plan sponsor's right to exclude years of service before a specified age in determining vesting eligibility.[27]

Unreduced vested pension payments begin at a plan's normal retirement age, based on the benefit formula in effect when an employee left the plan. Also, terminated and vested participants can receive a reduced pension under a plan's early retirement provision if the participant had satisfied the corresponding service requirement when leaving the plan.

For terminated and vested employees who wish to receive a pension beginning at the early retirement age, ERISA requires the benefit to be at least the actuarial equivalent of what would have been received starting at age 65. The actuarial equivalent benefit is a reduced amount determined by the life expectancy at the age that pension payments begin. Although under ERISA the reduction factor used in determining the pension for a terminated employee can be more severe than for early retirement, the same factor was used in plans covering 65 percent of the participants with early retirement provisions.[28]

Postretirement survivor benefits (table 69). ERISA also requires the availability of a form of pension in which at least 50 percent of the retiree's payments continue to the spouse after the retiree's death. When this type of pension—called a joint-and-survivor annuity—is paid, the employee will generally receive a lower benefit during retirement since payments are likely to be made over a longer period of time. When the retiree dies, the spouse will receive part or all of the retiree's monthly pension benefits.[29]

Joint-and-survivor annuities are based on an actuarial or arithmetic reduction of the employee's pension. Nearly one-fifth of the participants were in plans offering only a joint-and-survivor option that provides a surviving spouse 50 percent of the retiree's adjusted pension. Sixty-six percent of

[26] The rate of increase was determined by dividing the annual average CPI-U for 1985 by the annual average CPI-U for 1980. For a discussion of postretirement increases, see Donald G. Schmitt, "Postretirement Increases Under Private Pension Plans," *Monthly Labor Review*, September 1984, pp. 3-8.

[27] Among other provisions, the Retirement Equity Act of 1984 amended ERISA by lowering from 25 to 21 the age after which employers must enroll workers in defined benefit and defined contribution plans, and lowering from 22 to 18 the age after which employees must earn vesting credits. In addition, the act requires that the spouse of a deceased vested employee be entitled to survivor benefits regardless of employee's age at death. For most plans, the Internal Revenue Service extended the deadline for compliance with provisions of the act until June 30, 1986. (Collectively bargained plans had to comply by January 1, 1987.) Since the survey was conducted from January to June 1986, previous ERISA rules were in effect when the surveyed establishments were visited.

[28] Due to changes in the Tax Reform Act of 1986, benefits from most defined benefit plans will vest more rapidly beginning in 1989. Vesting provisions differ significantly between defined benefit and some types of defined contribution plans. The next chapter discusses these differences.

[29] ERISA requires that the joint-and-survivor coverage be automatic for married retirees, and that waiver of this option must be requested in writing. The Retirement Equity Act (see footnote 27) further directs that spouse coverage can be waived only if both husband and wife sign the request. For a more complete discussion of survivor benefits, see Donald Bell and Avy Graham, "Surviving Spouse's Benefits in Private Pension Plans," *Monthly Labor Review*, April 1984, pp. 23-31.

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participants (up from 59 percent in 1980) had a choice of two or more alternative percentages (frequently 50, 67, and 100 percent) to be continued to the spouse, with corresponding reductions in their annuities.

Two percent of participants were in plans where the spouse receives a joint-and-survivor annuity and either a monthly cash payment or a portion of the retiree's pension. A larger group, 7 percent of participants, were in plans providing a portion of the retiree's benefit. In these latter plans, the spousal annuity is close to what a 50-percent joint-and-survivor annuity might provide. In both of these types of plans, there is no reduction to the employee's pension for the joint-and-survivor annuity.

Preretirement survivor benefits (table 70). Nearly all participants were in plans providing for survivor payments in case the employee died before retirement. Pensions usually had to be vested before any death benefits were payable.[30] For nearly two-thirds of the participants, a surviving spouse would receive an annuity equivalent to the amount payable if the employee had retired on the day prior to death with a joint-and-survivor form of payment in effect. Most survivor pensions of this nature were based on an early retirement benefit and were provided at no cost to the employee. However, for 14 percent of participants (down from 24 percent in 1980), preretirement joint-and-survivor protection involved an extra cost to the employee and was available only if elected. The cost was usually paid by the employee through a small deduction in the pension ultimately payable to either employee or spouse.

The remaining one-third of pension plan participants generally had a preretirement survivor annuity calculated as a portion of the employee's accrued benefit (the benefit earned as of the date of the employee's death). The incidence of this type of annuity increased by slightly over 40 percent between 1984 and 1986, in part due to the Retirement Equity Act of 1984. If an active employee dies after completion of the vesting requirement, a typical survivor would receive an annuity equal to 50 percent of the employee's accrued benefit to date. Payments would be reduced by the early retirement adjustment, and would begin when the employee would have reached early retirement age. If the employee lives to become eligible for early retirement, the survivor benefit in many cases switches to the equivalent of a 50-percent joint-and-survivor benefit calculated as if the employee had retired on the day of death. (The earliest available preretirement survivor annuity was tabulated.)

Employee contributions. The employer paid the full cost of defined benefit pension plans for 94 percent of the participants. Of the employees who had to pay part of the cost, virtually all paid a percent of earnings. The majority of participants in contributory plans paid one rate (usually 2 to 4 percent) on earnings above a specified level, and a lower rate (or frequently zero) below that earnings level. The annual earnings level at which this break occurred ranged from $3,000 to the $42,000 Social Security taxable wage base in effect during 1986. Plans with varying employee contributions usually coordinate private benefits with Social Security payments; as discussed earlier, pension benefit computation rates used in these plans are higher on earnings above the Social Security taxable wage base. One-fourth of the participants in contributory plans paid a flat rate—none paid more than 3 percent.

Participation requirements (table 71). Two-fifths of the employees with pension plans had immediate coverage. Another one-fifth could participate regardless of age but had a service requirement, seldom more than 1 year. The remaining employees could not enter the pension plan until they reached a specified age and completed 1 year of service, the most restrictive requirement permitted under ERISA.[31]

Three-fifths of pension plan participants were in plans with a maximum age, usually 59, beyond which newly hired employees were not eligible. Maximum age conditions are permitted under ERISA regulations as long as the specified age is within 5 years of a plan's normal retirement age.[32]

[30] See footnote 27 for changes required by the Retirement Equity Act.

[31] See footnote 27 regarding the Retirement Equity Act's changes to ERISA.

[32] The 1986 Budget Reconciliation Act (described in footnote 25) changes the ERISA requirements beginning in 1988. Plans will no longer be allowed to exclude employees from participation due to age. Instead, the plan may require the employee to participate for 5 years before becoming eligible for benefits, even if that date is beyond the normal retirement age.

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Table 61. Defined benefit pension plans:[1] Average replacement rates for specified final earnings and years of service,[2] medium and large firms, 1986—Continued

Final annual earnings	Years of service[3]						
	10	15	20	25	30	35	40
	Combined private pension and primary[4] Social Security benefit						
Production							
$15,000	54.1	59.7	65.1	70.4	75.4	80.1	84.5
$20,000	49.1	53.8	58.4	63.0	67.3	71.2	74.9
$25,000	43.4	47.7	52.0	56.1	60.1	63.6	66.8
$30,000	38.1	42.3	46.3	50.2	54.0	57.3	60.2
$35,000	34.1	38.2	42.1	45.8	49.4	52.5	55.3
$40,000	31.0	35.0	38.8	42.4	45.8	48.7	51.3

[1] Excludes supplemental pension plans.

[2] Retirement annuity as a percent of earnings in the final year of work. The maximum private pension available to an employee, not reduced for early retirement or joint-and-survivor annuity, was calculated under each pension plan using the earnings and service assumptions shown. This benefit level was then expressed as a percent of earnings in the last year of employment.

These calculations assume employees retired on January 1, 1986, and final earnings are for 1985. Earnings histories, necessary for applying the pension formulas, were constructed for each final earnings level based on data provided by the Social Security Administration.

For private pension formulas that are integrated with Social Security (see table 59) and for computation of Social Security benefits, the worker is assumed to have retired at age 65 and paid into Social Security for 40 years. Computations exclude 2 percent of participants in cash account pension plans or plans with benefits based on career contributions.

[3] The years of service intervals represent total service with the employer. Time spent satisfying service requirements for plan participation was excluded from the calculation of replacement rates, unless the pension plan specified that such time was to be included in benefit computations.

[4] Excludes benefits for spouses and other dependents.

Table 62. Defined benefit pension plans:[1] Percent of full-time participants by minimum age and associated service requirements for normal retirement,[2] medium and large firms, 1986

Age and service requirement[3]	All participants	Professional and administrative participants	Technical and clerical participants	Production participants
Total	100	100	100	100
No age requirement	13	5	10	20
30 years' service	13	5	10	19
More than 30 years' service	([4])	-	([4])	([4])
Age 53	([4])	-	-	([4])
30 years' service	([4])	-	-	([4])
Age 55	3	5	1	3
20 years' service	2	4	1	1
25 years' service	([4])	([4])	([4])	([4])
30 years' service	1	1	1	2
More than 30 years' service	([4])	([4])	([4])	([4])
Age 56-59	1	([4])	1	2
15 or 20 years' service	([4])	-	([4])	1
30 years' service	([4])	-	([4])	1
More than 30 years' service	1	([4])	([4])	1
Age 60	14	20	15	10
No service requirement	4	6	5	3
1-5 years' service	3	5	3	1
10 years' service	3	3	3	3
15 years' service	1	1	1	1
20 years' service	([4])	([4])	([4])	1
25 years' service	([4])	([4])	([4])	([4])
30 years' service	3	4	4	2
More than 30 years' service	([4])	([4])	-	-
Age 61	1	1	1	([4])
5 years' service	([4])	([4])	([4])	([4])
20 years' service	([4])	([4])	([4])	-
26 years' service	([4])	1	1	([4])
Age 62	19	19	20	18
No service requirement	4	4	5	4
1-4 years' service	([4])	([4])	([4])	([4])
5 years' service	1	1	1	([4])
8 years' service	([4])	([4])	([4])	-
10 years' service	7	7	6	8
14 years' service	([4])	([4])	([4])	-
15 years' service	2	3	4	1
20 years' service	2	2	2	3
25 years' service	1	1	1	1
30 years' service	1	1	1	1
Age 63-64	2	2	4	2
No service requirement	([4])	([4])	([4])	-
10 years' service	2	2	3	1
20 years' service	([4])	-	-	1
Age 65	36	33	36	38
No service requirement	32	31	34	32
1-4 years' service	([4])	-	-	([4])
5 years' service	2	1	1	3
10 years' service	2	1	1	3
Sum of age plus service[5]	11	14	13	7
Equals less than 80	1	2	2	([4])
Equals 80	1	1	([4])	([4])
Equals 85	5	7	4	4
Equals 90	3	2	6	2
Equals more than 90	1	1	1	1

[1] Excludes supplemental pension plans.

[2] Normal retirement is defined as the point at which the participant could retire and immediately receive all accrued benefits by virtue of service and earnings, without reduction due to age.

[3] If a plan had alternative age and service requirements, the earliest age and associated service were tabulated; if one alternative did not specify an age, it was the requirement tabulated.

[4] Less than 0.5 percent.

[5] In most plans, participants must also satisfy a minimum age or service requirement.

NOTE: Because of rounding, sums of individual items may not equal totals. Dash indicates no employees in this category.

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Table 67. Defined benefit pension plans:[1] Percent of full-time participants in plans granting ad hoc postretirement annuity increases,[2] medium and large firms, 1986—Continued

Characteristic	All participants	Professional and administrative participants	Technical and clerical participants	Production participants
Benefit formula for most recent increase				
Total	100	100	100	100
Flat increase	38	40	44	35
Monthly dollar amount	5	2	1	8
Less than $10.00	2	-	-	4
$10.00	1	(3)	(3)	2
$10.01-$15.00	(3)	(3)	-	-
$15.01-$20.00	(3)	(3)	(3)	(3)
More than $20.00	1	-	-	1
Varies by date of retirement	1	1	1	1
Percent of present benefit	32	38	43	25
Less than 5.0	4	6	5	3
5.0	2	1	1	3
5.1-7.4	1	2	2	(3)
7.5-9.9	1	3	(3)	(3)
10.0	1	(3)	1	(3)
10.1-14.9	3	2	1	4
15.0	1	1	1	1
More than 15.0	(3)	(3)	1	(3)
Varies by date of retirement	20	22	31	14
Type of flat increase not determinable	1	-	-	1
Increase per year of retirement	32	39	39	24
Monthly dollar amount	2	3	1	1
Percent of present benefit	30	36	38	23
Less than 2.0	6	6	10	5
2.0	3	5	3	2
3.0	4	5	6	2
4.0	2	3	2	2
4.1-4.9	6	6	8	5
5.0	4	4	3	4
6.0	1	1	1	(3)
Varies by date of retirement	4	5	4	4
Increase per year of service	28	17	14	39
Monthly dollar amount	27	16	13	38
Less than $.50	1	-	-	2
$.50	3	2	2	3
$1.00	18	11	8	26
$1.01-$1.99	(3)	(3)	(3)	-
$2.00	1	1	1	1
More than $2.00	1	1	1	1
Varies by date of retirement	3	1	2	5
Percent of present benefit	1	1	1	1
Combination of two or more benefit formulas	2	4	2	2
Type of formula not determinable	(3)	1	1	(3)

[1] Excludes supplemental pension plans.
[2] Unscheduled increases in pension payments for employees retiring prior to 1986. Excludes one-time lump-sum payments.
[3] Less than 0.5 percent.

NOTE: Because of rounding, sums of individual items may not equal totals. Dash indicates no employees in this category.

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Chapter 7. Defined Contribution Plans

Sixty percent of the employees within the scope of the 1986 survey (seven-tenths of the white-collar workers and one-half of the blue-collar workers) participated in one or more defined contribution plans. These plans, which are wholly or partly financed by employers, are designed to provide retirement income, capital accumulation, or both. Retirement plans, as defined in this study, do not allow withdrawal of employer contributions until retirement age, death, disability, separation from service, age 59 1/2, or hardship. Capital accumulation plans, on the other hand, impose less stringent restrictions for withdrawal of employer contributions.[33] Examples of these less stringent restrictions include permitting only one or two withdrawals per year, or imposing a service requirement of 2 or 5 years before withdrawal.

Two-thirds of the employees within the scope of the survey were in retirement plans only, and 22 percent were in both retirement and capital accumulation plans; 1 percent had capital accumulation but no retirement plans (table 72).

As noted in chapter 6, three-fourths of employees participated in a defined benefit pension plan. But when defined contribution retirement plans are considered along with defined benefit pension plans, retirement coverage rises to 89 percent.

Whether for retirement or capital accumulation, defined contribution plans usually specify a contribution rate by the employer, but not a formula for determining benefits, as in a defined benefit pension plan. Instead, individual accounts are set up for participants, and benefits are based on amounts credited to these accounts, plus investment earnings.

As shown in table 73, various types of defined contribution plans are available for retirement and capital accumulation purposes: 30 percent of the employees participated in employee stock ownership plans, 28 percent in savings and thrift plans, 22 percent in profit-sharing plans, 2 percent in money purchase pension plans, and less than one-half of 1 percent in stock bonus plans.[34] Another 3 percent of the employees were currently purchasing company stock, through payroll deductions, at less than market price (stock purchase plans), and less than one-half of 1 percent of employees were eligible to purchase stock in the future at a designated price (stock option plans). As table 74 shows, it was common for employees to participate in more than one defined contribution plan.

Seventy percent of participants in defined contribution retirement plans had their benefit wholly financed by the employer. In contrast, capital accumulation plans were jointly financed for 78 percent of the participants. A large majority of capital accumulation plans were savings and thrift plans, which involve employer matching of employee contributions.

It was common for employees to participate in both a defined benefit or money purchase pension plan and one or more other retirement or capital accumulation plans. Sixty percent of participants in pension plans of medium and large firms (70 percent of white-collar and 45 percent of blue-collar participants) also had at least one additional plan, up from 50 percent in 1985.

The likelihood of a combination of plans varied with the type of plan. For example, two-thirds of profit-sharing plan participants did not have a pension plan available to them. Conversely, almost 90 percent of savings and thrift plan participants were also defined benefit plan participants. Profit-sharing plans often substitute for pensions, while savings and thrift plans commonly are supplements.

Cash or deferred arrangements (table 75)

One-third of the employees within the scope of the survey were in plans with a cash or deferred arrangement.[35] These arrangements allow participants to choose between receiving currently taxable income, or deferring taxation by placing the money in a retirement account. Cash or deferred arrangements took the form of either salary reduction plans or deferrals of profit-sharing allocations.

[33] BLS used these definitions for analytic purposes, but it should be noted that most defined contribution plans can be used to provide retirement income or accumulate financial assets. Capital accumulation plans may provide retirement income, because withdrawals of the employer's contributions are voluntary, not mandatory. Similarly, defined contribution retirement plans can be used to accumulate assets, because these plans nearly always permit preretirement withdrawals of the employer's contributions (for example, at age 59½, upon termination of employment prior to retirement, or upon disability). Many of these plans also permit employees to receive a lump sum, rather than an annuity, upon retirement).

[34] A money purchase pension plan provides for a pension annuity or other form of retirement income that is determined by fixed contribution rates plus earnings credited to the employee's account. A stock bonus plan is a plan whereby the employer or the employee and the employer jointly contribute to a trust fund which invests in various securities. Proceeds from the investments are usually paid to the employees in the form of company stock. Savings and thrift, employee stock ownership, and profit-sharing plans are described later in this chapter.

[35] The survey determined the number of employees actually contributing to freestanding 401(k) plans. It also determined the number participating in employer-financed plans allowing employee contributions with pretax dollars, but not the number of employees actually making such contributions.

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Salary reduction plans (available to 31 percent of employees) allowed employees to contribute a part of their earnings to a retirement plan, and defer income taxes on those contributions and their earnings until distribution. Such contributions are referred to as "employee elective deferrals" or "pretax contributions."

Deferrals of profit-sharing allocations (available to 2 percent of employees) provide employees with the choice of receiving an employer's profit-sharing contribution immediately, or deferring the contribution and postponing taxation until distribution.

Participation in plans with salary reduction features, which are authorized by sections 401(k) and 403(b) of the Internal Revenue Code, increased from 26 to 31 percent of employees between 1985 and 1986.[36] Forty-two percent of the white-collar and 19 percent of the blue-collar employees participated. Two-thirds of all participants (white- and blue-collar combined) could elect to make their contributions to an existing savings and thrift plan where the employer matched at least part of the employee's contribution; the remaining one-third of the participants were in freestanding plans (no employer contribution), profit-sharing plans, or money purchase pension plans.

From a different perspective, 49 percent of all participants in defined contribution plans could make tax-deferred contributions to their plan. The incidence, again, was higher for white-collar (55 percent) than for blue-collar (38 percent) employees. The following tabulation shows the percent of defined contribution plan participants in plans with salary reduction features:

	Percent of participants
Savings and thrift	75
Deferred profit sharing	28
Money purchase pension	34

Savings and thrift plans

Twenty-eight percent of employees participated in savings and thrift plans—38 percent of white-collar and 17 percent of blue-collar workers. Under these plans, employees contribute a predetermined portion of earnings to an account, all or part of which is matched by the employer. Contributions are invested in various ways, such as stocks, bonds, and money market funds, as directed by the employee or employer, depending upon the provisions of the plan. Although usually designed as a long-term savings program, savings and thrift plans allow for withdrawals subject to specified conditions and, possibly, penalties.

Employee contributions (tables 76–77). Savings and thrift plans allow employees to choose from a range of possible contribution rates. A typical plan allows employees to contribute (in whole percentages) anywhere from 6 to 16 percent of pay. Nearly three-tenths of the participants could contribute up to 16 percent of their earnings; 10 percent and 12 percent were other common maximums.

Three-fourths of the participants in savings and thrift plans were allowed to make pretax contributions, up from 65 percent in 1985. Thirty-nine percent were given the option to contribute either pretax or posttax earnings in 1986, while 36 percent were required to make contributions on a pretax, salary reduction basis. Half of the participants in plans mandating pretax contributions were required to contribute only an initial amount pretax. For example, a plan may allow a maximum contribution of 16 percent with only the first 6 percent required on a pretax basis.

Employer matching contributions (table 78). Employers provide an incentive for participation in a savings and thrift plan by matching all or a portion of the employee's contribution and adding this amount to the employee's account. Usually the employer matches a portion of the employee's contribution up to a specified percent of the employee's earnings. For example, the most common provision found in 1986 was for an employer to match 50 percent of the employee's contribution up to the first 6 percent of earnings. Assuming the employee contributed 8 percent of earnings, the employer would add 3 percent (50 percent of the first 6 percent of the employee's earnings). In contrast with these straight percentage matches, nearly one-fourth of the participants received matching contribution rates varying by length of service, level of employee contribution, or company profits.

Investment decisions (table 79). Nine out of ten participants in savings and thrift plans were allowed to choose how they wanted their own contributions invested. Common investment vehicles offered by these plans included company stock, common stock funds, guaranteed investment contracts, government securities, corporate bonds, and money market funds. The number of choices in these plans varied from two to five or more, with three choices being the most common. Employees were nearly always allowed to split their contributions among the various options and were allowed to change their investment choices periodically.

Employees generally had less flexibility when it came to employer contributions. Only one-half of the participants were permitted to choose how the matching contribution was to be invested. Where no choice was permitted, the plan typically specified that the matching contribution was invested in company stock.

Withdrawals and loans (table 80). Eight-tenths of the participants in savings and thrift plans were allowed to withdraw all or a portion of employer contributions prior to normal payout (retirement, disability, or termination of employment). Twenty-six percent, however, were only allowed to withdraw employer contributions for hardship reasons

[36] Most participants in cash or deferred arrangements were in plans that qualified under section 401(k) of the Internal Revenue Code. A small number of plans under section 403(b) were observed in not-for-profit organizations.

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(medical, educational, home improvements, etc.). The remaining participants could withdraw employer contributions for any reason. Two-thirds of the participants who could withdraw for any reason were subject to a penalty—usually suspension of employer and employee contributions for 6 or 12 months, or forfeiture of non-vested employer contributions.

The ability of the participants to withdraw their own contributions prior to retirement, death, disability, age 59 1/2, or termination of employment depends upon whether the money was contributed pretax or posttax. Pretax contributions are subject to Internal Revenue Code provisions and can only be withdrawn for hardship. Posttax contributions are not subject to hardship rules, and many plans allow these amounts to be withdrawn for any reason. However, a penalty in the form of a 6- or 12-month suspension from further contributions to the plan is common.

Another method of accessing an employee's account prior to final payout is through loan provisions—one-fourth of participants in savings and thrift plans were allowed to borrow from their accounts. One-half of the participants in plans permitting loans were also able to withdraw part of their account for any reason. The other half were in plans that prohibited withdrawals or allowed them only for hardship reasons. Interest rates on employee loans were typically determined by a specific economic indicator (such as the prime rate or U.S. Treasury bill rate) or were at the discretion of the plan sponsor (employer, employer association, or union). Loans were generally required to be repaid within 5 years, but longer payment periods applied for home purchase or renovation loans.

Distribution (table 81). At retirement, savings and thrift plans virtually always allowed for payout in the form of a lump sum, lifetime annuity, or installments over a specified time period. Many participants were given a choice from among two or all three of these options.

Employee stock ownership plans (table 82)

Thirty percent of all employees in medium and large firms participated in an employee stock ownership plan (ESOP), up from 24 percent in 1985.[37] These plans, usually funded entirely by the employer, provide employees with stock in their company. The employer pays a designated amount to a fund that is invested primarily in company stock and makes benefit distributions in either company stock or cash. The majority of participants in ESOP's were in payroll-based plans (PAYSOP's). Companies received a Federal tax credit of up to 0.5 percent of the plan participants' payroll for funds used to purchase company stock to distribute to the participants' accounts. This tax credit expired on December 31, 1986.

While the maximum employer contribution to a PAYSOP was fixed by law at 0.5 percent of payroll, employers had some discretion in allocating that money to individual employees. Nearly 80 percent of 1986 participants were in plans that allocated benefits in proportion to salaries. (By law, only salaries up to $100,000 per year could be included in such calculations.) The remaining participants were in plans that allocated benefits equally to all participants.

The PAYSOP provisions in the Internal Revenue Code allowed employer contributions to be distributed after they had been held in an employee's account for 7 years. Despite this provision, 85 percent of PAYSOP participants had to wait until termination of employment, death, or disability to have benefits distributed. Only 15 percent of participants could gain access to their benefits after 7 years. With the expiration of the PAYSOP tax credit, employers who terminate their plans may distribute accumulated benefits immediately.

Final distribution of PAYSOP benefits was in the form of stock for 58 percent of participants. The remaining participants could choose between a distribution in stock or the equivalent in cash.

Profit-sharing plans (table 83)

Twenty-two percent of all employees had profit-sharing plans in 1986, up from 18 percent in 1985. There are three types of profit-sharing plans—cash plans (covering 1 percent of the workers), deferred plans (18 percent), and plans that offer a combination of cash and deferred benefits (3 percent). In a cash plan, benefits are paid directly to the participants in cash, usually at the end of the year, while a deferred plan holds money in employee accounts until retirement or another condition stipulated by the plan (disability, death, etc.). In a combined plan, the employee may automatically receive a portion of the profits in cash, with the remainder placed in a deferred account, or the employee may be given a choice of cash or deferred benefits.

Three-fifths of 1986 participants in deferred profit-sharing plans had employer contributions determined by a specified formula, such as 4 percent of profits if annual sales were $2-5 million, 8 percent if sales exceeded $5 million. The remaining participants were in plans where the employer contribution was determined at the discretion of the employer.

Once the employer contribution is determined, it may be allocated to individual participants in a number of ways. The most common method of allocation was in proportion to salary (81 percent of plan participants). Other allocation methods included formulas based on earnings and service (10 percent) and equal allocations to all participants (1 percent). Another plan feature, loans from employee accounts, was available to one-fourth of the participants in deferred profit-sharing plans.

Participation and vesting (tables 84 and 85)

Minimum age and/or service participation requirements are more common in defined contribution plans than in de-

[37] This proportion is limited to plans where stock was credited to employee accounts during 1986.

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fined benefit plans. To begin accumulating benefits from a savings and thrift plan, 90 percent of participants had to meet such requirements. Participation requirements were also common for profit-sharing plans (86 percent), and employee stock ownership plans (74 percent). In contrast, only 59 percent of defined benefit pension plan participants faced such provisions.

Of those defined contribution plans with participation requirements, most required a minimum amount of service, commonly 1 year, and did not require an employee to be a designated minimum age. Conversely, defined benefit pension plans that included participation requirements most often specified a minimum age and a minimum amount of service.

Defined contribution plans are subject to ERISA vesting rules in the same manner as defined benefit pension plans. Vesting schedules vary significantly, however, between defined benefit and defined contribution plans, and variations are also common between individual types of defined contribution plans. All vesting schedules apply to employer contributions; employee contributions (including pretax contributions) are always 100-percent vested.

Twenty-six percent of savings and thrift plan participants and 29 percent of deferred profit-sharing participants had immediate full vesting, a feature rarely found in defined benefit plans. PAYSOP's, by law, are always 100-percent vested. Class-year vesting, where employer contributions for a particular year (class) become nonforfeitable after a specific period of time, was available to nearly 30 percent of savings and thrift plan participants. Such vesting was uncommon in profit-sharing plans.

Graduated vesting, where an employee's nonforfeitable percentage increases over time and reaches 100 percent, usually after 5 or 10 years, was most common in deferred profit-sharing plans, with 2 of 3 participants covered by such a provision. One-fourth of savings and thrift plans participants had graduated vesting, and only about 10 percent of defined benefit plan participants had such vesting. Finally, "cliff" vesting, where no vesting occurs until an employee satisfies the service requirements for 100-percent vesting, is found in the majority of defined benefit plans, but was required of only 20 percent of savings and thrift plan participants and 2 percent of deferred profit-sharing plan participants.

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Chapter 8. Plan Administration

In addition to the data on individual benefit plans, the survey looked at how various benefits are administered. The great majority of the insurance and retirement plans were sponsored by individual employers, and benefits typically were offered independently, rather than as part of a flexible benefits program.

Plan sponsor (table 86)

Single employers were the predominant sponsors of health, life, sickness and accident, and long-term disability insurance, and defined benefit pension plans in medium and large firms. Nearly all plan participants in life insurance, health insurance, long-term disability insurance, and defined benefit pension plans were in single-employer plans. Eighty-seven percent of sickness and accident insurance participants were in single-employer plans; most of the remaining participants were in State temporary disability benefit plans. (State disability plans are discussed in chapter 4.)

Multiemployer plans result from agreements between employers within an industry or related industries and one or more labor unions. These plans allow employees moving from one employer to another within the industry to receive the same or similar benefits. Defined benefit pension and health insurance plans were the most common benefits sponsored by multiemployer groups, and production employees were the most likely recipients of such benefits. The scope of the survey, which excludes several service industries and small firms in other industries, such as contract construction and trucking, accounts for the small representation of multiemployer plans.

Flexible benefits plans and reimbursement accounts (table 87)

Traditionally, employers have offered their workers benefit plans in a number of areas, such as health insurance, life insurance, and retirement. Employees may have a choice between one or more plans in a benefit area, for example, between a commercial health insurance plan and a health maintenance organization, but benefits in each area are offered separately. In recent years, however, a new approach to offering benefits has attracted considerable attention—flexible benefits. In 1986, the Employee Benefits Survey looked for the first time at two arrangements for offering such benefits—flexible benefits plans and reimbursement accounts.

Five percent of employees in medium and large firms were offered flexible benefits plans, reimbursement accounts, or both. These plans were more common among white-collar workers (8 percent) than among blue-collar workers (2 percent).

Flexible benefits plans, also known as cafeteria plans, allow employees to choose between two or more types of benefits.[38] The most common choices offered were health, life and long-term disability insurance, pretax savings (salary reduction plans), added vacation days, and the option of receiving cash instead of benefits. Less common choices were added sick leave days, sickness and accident insurance, educational assistance, child care expenses, legal expenses, and adoption assistance. Pensions are usually fixed benefits and not part of a flexible benefits program.

A reimbursement account, also called a flexible spending account, provides employer funds, employee pretax money, or both, to be used for expenses not included in a benefits package. Typical expenses that may be reimbursed through the account include health care coinsurance, deductibles, and other out-of-pocket health expenses; and insurance premiums, child care costs, and legal assistance. Reimbursement accounts may be part of a flexible benefits plan or they stand alone.

A large majority of employees participating in flexible benefits plans or reimbursement accounts were required to contribute toward the cost of their benefits, or were allowed to contribute to obtain additional benefits. Most of these contributions were in the form of a salary reduction arrangement.[39]

Individual benefit plans offered through a flexible benefits plan were analyzed and included in the tabulations for specific benefit areas in this bulletin.

[38] For this survey, a plan had to allow choices among two or more types of benefits to be classified as a flexible benefits plan. Thus, plans that permitted a selection in only one benefit (for example, a choice among several health insurance options or plans) were not classified as flexible benefits plans.

[39] Regulations covering section 125 of the Internal Revenue Code allow employees to designate a portion of their salary for full or partial payment of certain benefit costs. Amounts so designated are known as salary reduction arrangements and are exempt from Federal income tax.

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Table 87. Flexible benefits plans and reimbursement accounts:[1] Percent of full-time employees eligible, medium and large firms, 1986

Coverage	All employees	Professional and administrative employees	Technical and clerical employees	Production employees
Total	100	100	100	100
Provided flexible benefits and/or reimbursement accounts	5	9	8	2
Flexible benefits	2	4	2	1
With reimbursement accounts	2	3	2	(2)
Reimbursement accounts	5	9	7	1
Freestanding reimbursement accounts	3	5	5	1
Not provided flexible benefits or reimbursement accounts	95	91	92	98

[1] Flexible benefits plans, also known as, flexible compensation and cafeteria plans, allow employees to choose between two or more benefits or benefit options, including cash, in determining their individual benefit packages. Reimbursement (flexible spending) accounts, which are used to finance benefits or expenses unpaid by insurance or benefit plans, may be part of a flexible benefits program or stand alone (freestanding accounts). These accounts may be financed by the employer, employee, or both. The employee contribution is made through a salary reduction arrangement.

[2] Less than 0.5 percent.

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