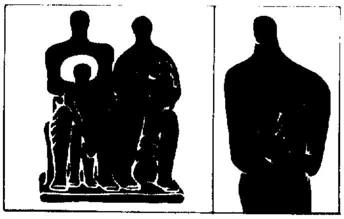

Family-related benefits in the workplace

The emergence and subsequent expansion of employer-provided benefits since 1915 have been fueled in part by the changing needs of employees and their families

William J. Wiatrowski

One of the more striking developments in personnel administration over the past 75 years has been the growing complexity of employee compensation. Limited at the outbreak of World War I largely to straight-time pay for hours worked, compensation now includes a variety of employer-financed benefits, such as health and life insurance, retirement income, and paid time off. Although the details of each vary widely, these benefits are today standard components of the compensation package, and workers generally have come to expect them.

Because family members are often primary recipients of many employee benefits, it is appropriate to trace the evolution of benefit plans in this 75th anniversary issue of the *Monthly Labor Review,* which focuses on changes in the family from 1915 to 1990. While no consistent series of data exists over this period, the *Review* has reported on benefits throughout its history. Those reports form the basis for much of this retrospective.

One function of employee benefits is to protect workers and their families from financial burdens. Health care plans help soften the impact of medical expenses and, perhaps, encourage workers and their dependents to seek care that might otherwise be forgone. Retirement income plans allow older employees to stop working and maintain certain living standards. Similarly, disability benefits provide income to those unable to work, and survivor benefits protect against loss of earnings resulting from the death of a spouse or other relative.

Employers provide benefits to their employees for a variety of reasons. One theory suggests that employers have a legitimate "concern for the welfare of their employees" beyond any economic motive, and this "paternalism" is expressed through the offer of protection against economic hardship.[1] Employers may also offer protection that they feel employees are unable to provide for themselves. According to this theory, employers assume that employees will tend to favor current consumption over prudent savings, and will therefore be unprepared for emergencies.[2] Finally, employers may offer benefit plans to meet union demands in collective bargaining, to attract and keep good employees, or to remain competitive with other employers in the labor market.[3]

Besides employers, another source of benefits is the Government, which provides direct benefits such as Social Security, and mandates employers to provide protection such as workers' compensation. Over the past 75 years, the Government has increased its role in the area of employee benefits substantially. In 1915, workers' compensation laws were just being introduced in several States. Since then, nationwide programs such as Social Security and unemployment insurance have been developed, and discussions of mandatory employer-provided benefits such as health care and parental leave are periodically on the agenda of policymakers.

William J. Wiatrowski is an economist in the Division of Occupational Pay and Employee Benefit Levels, Bureau of Labor Statistics.

The growth of employer-provided and Government-mandated benefits has changed the character of employee compensation: by 1989, benefits accounted for nearly 30 percent of the total cost of such compensation.[4] This article provides a look at the growth of benefits over the past three-quarters of a century, in 15-year intervals. The focus is on the response of employers and the Government to the changing needs of employees and their families.[5]

1915–29: war years, boom years

When the *Monthly Labor Review* was first published, the United States was an emerging world power. The Nation's strength became evident over the next 15 years—militarily, diplomatically, and economically. Employment in manufacturing increased rapidly, with a new industrial order replacing the primarily agrarian economy of the 19th century.[6] Workers received virtually all of their compensation in the form of wages and salaries.

Typically, employers did not respond to familial needs during this period. The average American family consisted of several generations and branches under one roof, with family members generally looking after and supporting one another.[7] Loss of income or unusual expenses were generally borne by the pooled resources of the family. The pioneer and agricultural traditions of this country had left a strong legacy of independence, and employers did not interfere.

Labor unions possessed similar ideas about interference in areas that were traditionally handled privately by individuals. Samuel Gompers, president of the American Federation of Labor, spoke out against compulsory benefits in 1917, arguing that such interference "weakens independence of spirit, delegates to outside authorities some of the powers and opportunities that rightfully belong to wage earners, and breaks down industrial freedom by exercising control over workers through a central bureaucracy."[8]

While neither employer-provided nor Government-mandated benefits were widespread, benefits were available through labor unions and mutual aid societies. Labor unions typically provided lump-sum benefits to survivors upon the death of an employee, and weekly payments to disabled employees. These benefits were funded directly by union members through their dues; in 1916, the American Federation of Labor reported more than $3 million in benefit payments.[9]

Mutual aid societies were generally worker-financed funds that collected dues and offered group benefits. One example was the Workmen's Sick and Death Benefit Fund of the United States, which was started in 1884 by German and Austrian immigrants seeking the safety of a group to provide protection from lost income.[10] This fund, which was not limited to employees in any one firm, had more than 44,000 members in 1916, and offered weekly income benefits for up to 80 weeks to disabled employees and lump-sum payments to survivors. Similar organizations sponsored athletic, musical, and literary events and established savings plans for members, in addition to providing death and disability benefits.[11] In general, mutual aid societies encouraged camaraderie among workers and provided a modest source of protection against loss of income due to disability or death.

In the past 75 years, employers have progressed from providing no benefits, to providing a standard package of benefits designed for a male-supported family, to providing innovative and flexible benefits to meet differing family needs.

Retirement income benefits were not widespread between 1915 and 1929. Few States had pension plans for their employees by 1916, and while more than 150 local governments had such plans, they generally covered only limited numbers of workers, most commonly police and firefighters. Among private employers, the few pension plans that existed were most often found in utility and transportation firms.[12]

The need for retirement income may not have been as great in 1915 as it is today, however, because Americans did not live as long and typically did not expect to enjoy "retirement years." Life expectancy in 1915 was 54.5 years (for men, only 52.5 years). In addition, the extended family usually cared for its elderly and met their financial needs.

1930–44: Great Depression, more war

The 15-year span from 1930 to 1944 was a time of great hardship and change in America, events that were reflected in labor practices. Severe economic conditions led to greater Government participation in compensation programs, most notably through the introduction of Social Security. Other legislative action formalized and strengthened the role of labor unions. By the end of the period, American involvement in World War II strengthened the economy, changed the focus of industry toward support of the war effort, and brought large numbers of women into the labor force.[13]

The era was marked by an expansion of retirement income benefits, particularly the establishment of Social Security. In addition, the Railroad Retirement System, a consolidation of several existing railroad industry pension plans under Government administration, was formed. Life expectancy rose to nearly 60 years by 1930 and to nearly 66 years by 1945, making it more likely than ever that workers would live past their working life. Social Security guaranteed a pension to retirees, although it was intended to be just one portion of a worker's total retirement income. Slowly, private firms began to offer retirement plans to supplement Social Security benefits.[14]

Another benefit that became more prevalent during this period was employer-provided life insurance. Mutual aid societies decreased in popularity and, where they did exist, concentrated largely on disability benefits. In their place, employers were purchasing group life insurance contracts for their employees.[15] Typical plans in the 1930's provided about $1,500 in life insurance protection, and double-indemnity benefits for accidental death.[16] One study reported that 60 percent of establishments surveyed provided life insurance to their workers in 1936.[17]

Newly emerging benefits include parental leave, child care, and flexible work schedules.

While the depression years saw relatively few changes in benefit practices, the war years gave rise to a number of changes. Employment grew rapidly after America entered the war, and women entered the labor force in large numbers to support the war effort.[18] To stabilize prices, the War Labor Board restricted wage increases but was more lenient in allowing improvements in benefits. Employers responded by offering a variety of benefits in lieu of increased wages.[19]

Increases in compensation provided during the war period consisted largely of items that were considered "noninflationary," that is, items that did not increase cash wages and, therefore, boost demand. Time off with pay, limited medical care for employees and families, and pension benefits met this requirement. These benefits served the additional goals of giving families more time together and eliminating potential financial catastrophes.[20]

1945–59: return to prosperity

Following World War II, the country reverted to a largely male-dominated labor force, as the return of servicemen led to a boom in marriages and children. These traditional families had needs that employers could address through benefit programs, such as time off with pay, payment of medical expenses, and protection against loss of income. The period saw the widespread adoption of these practices into the compensation package.

Supporting this fundamental change in the compensation structure of American workers were two court rulings on the scope of the National Labor Relations Act of 1935 (the Wagner Act). The act, as amended by the Taft-Hartley Act of 1947, states that management must negotiate with labor organizations, elected to represent workers, on "wages, hours, and other terms and conditions of employment."[21] In 1948 and 1949, court rulings held that retirement and insurance benefits were "other terms and conditions of employment" and that management had to include these items in collective bargaining negotiations.[22]

One of the most notable benefits to emerge from the change in family structure and legal environment of the era was health care. Previously, some lost-income benefits were available during an illness or accident, and perhaps an informal arrangement existed for employees to receive medical care at a company clinic or other local facility, but formal medical insurance was uncommon. Needs had changed by the late 1940's and 1950's, however. Hospital admission rates stood at 120 per 1,000 people in 1945, more than double the 1931 rate. And the amount spent on health services and supplies topped $10 billion in 1948. This amounted to $68 per capita, considerably more than twice the 1929 figure.[23]

To meet this need, employers began providing formal health care plans to employees and their families, through either commercial insurers or Blue Cross/Blue Shield organizations. Typically, plans would pay for a limited number of hospital days and up to a specified maximum dollar amount for various medical services.[24] Such plans offered only basic medical protection, and looked very different from the extensive plans of the late 1980's.[25] One Bureau study showed that by 1960 about 80 percent of plant and office workers in metropolitan areas received a health care plan through their employer.[26]

1960–74: on the verge of change

While the years from 1960 to 1974 are considered turbulent in American history, in the history of benefits they were but a prelude to more dramatic changes. This era saw the U.S. Congress debate major pension reform for nearly 15 years. The result—the Employee Retirement Income Security Act—was signed into law on Labor Day 1974. Also on the verge of major change was the demographic makeup of the labor force: women of the baby-boom generation were going to college and preparing for future employment.

The era was not, however, one of stagnation in the area of employee benefits. Employers established and expanded upon typical benefit plans, such as paid leave, retirement income, health care, and survivor and disability insurance. More generous early retirement pension benefits and expanded survivor income payments were among the provisions added to benefit plans during this time. Benefit packages were primarily geared toward a typical family, with a working husband, a nonworking wife, and school-age children.

Data on the incidence of benefits among office and plant workers are available throughout this period from the Bureau's Area Wage Surveys. All metropolitan area estimates from the Area Wage Surveys show that life insurance, health care, income protection during short-term disabilities, and retirement income plans generally became more widespread for both office and plant workers during this time. (See table 1.)

Health care plans were subject to the most dramatic changes during the period. In 1960, employees typically received coverage in full for hospitalization for a specified number of days (such as 120 days per confinement) and coverage for surgical expenses up to a maximum dollar amount per procedure. Less common was coverage for doctors' visits, x rays, and laboratory tests conducted outside of a hospital. Coverage for these items would become part of nearly all employee health packages by the end of the era.

Catastrophic medical coverage, or "major medical," provides protection beyond the limitations of the "basic" benefits just described. Typically, such plans pay a percent of charges incurred after a deductible is paid by the employee. The combination of basic and catastrophic coverage gives employees greatly expanded protection against financial hardship.

Between 1960 and 1975, the incidence of catastrophic medical coverage rose dramatically. The following tabulation shows the increasing percent of office and plant workers with catastrophic medical protection during this period:

Years	*Percent of—* *Office workers*	*Plant workers*
1960–61	49	21
1965–66	73	40
1970–71	88	65
1975	94	77

Plant workers lagged behind office workers in receiving catastrophic protection, in part due to the lack of such protection in plans established through collective bargaining. Unions typically favored basic protection that offered full coverage of medical expenses without requiring employees to pay deductibles or a percent of the charges.

1975–89: plans for the "new" family

The period from 1975 to the present is an era dominated by two major trends: Substantial changes in the demographics of the labor force and sweeping Government regulation of benefits. During this period, women joined the labor force in large numbers, two-earner families became the norm, and employee needs changed from those of the traditional post-World War II family. As indicated earlier, the Employee Retirement Income Security Act of 1974 began a wave of benefits legislation that is still continuing. The new law set standards for pension plan provisions and funding, and established reporting and disclosure requirements aimed at keeping employees and the Government alert to the soundness of benefit plans.

In 1989, 57 percent of all women above age 16 were in the labor force, compared with 46 percent in 1975 and 37 percent in 1959. In addition, by 1987, both spouses were working in 57 percent of married-couple families. Furthermore, it has become less and less common for women to leave the labor force for any significant period following childbirth. These demographic changes suggest that traditional benefit packages may be redundant or inadequate for today's workers and families.[27]

The Employee Retirement Income Security Act was just the beginning of a series of tax and benefit laws that have led to sweeping changes

Table 1. **Percent of full-time office and plant workers in all metropolitan areas offered employer-sponsored benefit plans,[1] selected years, 1960–75**

Worker group and benefit type	1960–61	1965–66	1970–71	1975
Office workers				
Life insurance	93	96	97	97
Short-term disability coverage[2]	81	79	87	88
Retirement pension	77	82	85	86
Hospitalization	84	93	97	98
Surgical coverage	82	93	96	98
Medical coverage[3]	63	82	90	96
Plant workers				
Life insurance	90	92	93	93
Short-term disability coverage[2]	80	80	82	82
Retirement pension	67	73	78	78
Hospitalization	87	93	95	95
Surgical coverage	86	92	95	95
Medical coverage[3]	62	75	87	91

1 An establishment is counted as offering a benefit to all office or plant workers if the majority of such workers are offered the benefit.

2 Includes workers receiving either sick leave, or sickness and accident insurance, or both.

3 Includes coverage for doctors' office visits, x rays, and laboratory tests.

in benefit plans over the past 15 years. These laws have concentrated in large measure on improving and guaranteeing the provisions of existing benefits, rather than mandating new benefits. Pension provisions covering eligibility requirements, vesting, discrimination rules, and survivor benefits are among the items that have been institutionalized and strengthened during this period.[28]

The rising cost of providing benefits has led to changes in the character and scope of benefits in the past 15 years. Benefits accounted for 17 percent of compensation costs in 1966, but rose to 22 percent by 1974 and 27 percent by 1989.[29] To combat these rising expenditures, employers attempted to fix their benefit costs and shift some of the burden to employees. For example, defined benefit pension plans, which guarantee employees a specified level of future benefits at unknown future costs to employers, were available to 20 percent fewer employees in medium and large private firms in 1988 than in 1979.[30] In their place, defined contribution plans, which obligate employers only to an initial expense in the form of specified payments to a pension fund, have increased in incidence. As another example, employers have sought to reduce health care costs by increasing employee deductibles, requiring employees to share premium expenses, and instituting cost containment measures, such as mandatory second surgical opinions, aimed at reducing unnecessary medical expenses. In recent years, employers also have turned to managed care programs, such as health maintenance organizations and preferred provider organizations, to curb rising medical costs.

In recognition of the changing demographics of the labor force during this period, employers have provided several new benefits and offered employees more opportunities to choose benefits suited to their family needs. Examples of newly emerging benefits include parental leave (time off for parents to care for newborn or adopted children), child care (employer-provided facilities or financial assistance), and flexible work schedules.[31] Benefit choices, among a variety of medical plans or among plans in multiple benefit areas, also attracted considerable attention as the typical family of the 1950's and 1960's became less prevalent and the needs of the varied family arrangements of the 1980's could no longer be satisfied by a fixed set of benefits.[32]

During the period 1975–89, the Bureau undertook its most comprehensive analysis of employee benefits, which has resulted in the documentation and tracking of significant changes in benefits. The Employee Benefits Survey, which began in 1979, details the incidence and provisions of benefits, while the Employment Cost Index has tracked changes in employer cost for compensation, including benefits, since 1980. In addition, the Area Wage Surveys continue to monitor the incidence of selected benefits in metropolitan areas, and the Industry Wage Surveys track the same data for selected industries.

THE 75 YEARS since the *Monthly Labor Review* was first published have seen the American family shift from a large, extended group to a smaller, individualized network of families with widely varying characteristics. During this same period, employers have progressed from providing no benefits, to providing a standard package of benefits designed for a male-supported family, to providing innovative and flexible benefits to meet differing family needs. While the future cannot be predicted, it is safe to assume that benefit plans will remain a major element of compensation and will continue to evolve to meet the needs of a changing labor force. □

Footnotes

[1] Jerry S. Rosenbloom and G. Victor Hallman, *Employee Benefit Planning* (Englewood Cliffs, NJ, Prentice-Hall, 1981), p. 14.

[2] Everett T. Allen, Jr., "Designing Employee Benefit Plans," in Jerry S. Rosenbloom, ed., *The Handbook of Employee Benefits: Design, Funding, and Administration* (Homewood, IL, Dow Jones–Irwin, 1984), pp. 5–20.

[3] Rosenbloom and Hallman, *Employee Benefit Planning*, p. 16.

[4] *Employment Cost Indexes and Levels, 1975–89*, Bulletin 2339 (Bureau of Labor Statistics, October 1989), p. 9.

[5] In general, the discussion focuses on monetary benefits, such as income replacement and payment of medical expenses. Changes in work schedules and provisions for paid time off (for example, vacations, holidays, and sick leave) are beyond the scope of the article.

[6] Data on employment by industry are from Stanley Lebergott, "Manpower in Economic Growth," in *Historical Statistics of the United States* (Bureau of the Census, September 1975), p. 139.

[7] The average household size was 4.54 persons in 1910, nearly double today's number, according to the Bureau of the Census.

[8] "Some Aspects of Health Insurance," *Monthly Labor Review*, May 1917, pp. 746–59.

[9] "Convention Proceedings of the American Federation of Labor," *Monthly Labor Review*, January 1917, pp. 5–10.

[10] Boris Emmet, "Disability Among Wage Earners," *Monthly Labor Review*, November 1919, pp. 20–39.

[11] "Employment Managers' Conference—Philadelphia," *Monthly Labor Review*, June 1917, pp. 890–900.

[12] "Civil-Service Retirement and Old-Age Pensions," *Monthly Labor Review*, June 1916, pp. 101–17.

[13] For more details on changing labor laws, see Alvin Bauman, "Measuring employee compensation in U.S. industry," *Monthly Labor Review*, October 1970, pp. 17–24; and Margaret H. Schoenfeld and Torleif Meloe, "American Labor—A 50-year Chronology," *Monthly Labor Review*, July 1950, pp. 79–86.

[14] "Supplementary-Pension Plan of United States Steel Corporation," *Monthly Labor Review*, October 1940, p. 888.

[15] "Analysis of Mutual-Benefit Association Plans," *Monthly Labor Review*, March 1930, pp. 72–73.

[16] "Group Insurance," *Monthly Labor Review*, July 1932, pp. 53–56. For more current details on accidental death benefits, see Cynthia Thompson, "Compensation for death and dismemberment," *Monthly Labor Review*, September 1989, pp. 13–17.

[17] "Industrial-Relations Policies in the United States," *Monthly Labor Review*, July 1936, pp. 88–91.

[18] Lebergott, *Historical Statistics*, p. 139.

[19] Bauman, "Measuring employee compensation," p. 19.

[20] Bauman, "Measuring employee compensation," p. 20.

[21] This language clarified somewhat the topics to be addressed in the collective bargaining process.

[22] See *Inland Steel Co.* v. NLRB, 170 F.2d 247 (1948); and *W. W. Cross & Co.* v. NLRB, 174 F.2d 875 (1949).

[23] Data are from the U.S. Social Security Administration and the U.S. Public Health Service in *Historical Statistics of the United States* (Bureau of the Census, September 1975), pp. 73–81.

[24] Evan Keith Rowe and Abraham Weiss, "Benefit Plans under Collective Bargaining," *Monthly Labor Review*, September 1948, pp. 229–34.

[25] See *Employee Benefits in Medium and Large Firms, 1988*, Bulletin 2336 (Bureau of Labor Statistics, August 1989), pp. 36–42.

[26] *Wage and Related Benefits, Metropolitan Areas, United States and Regional Summaries, 1960–61*, Bulletin 1285–84 (Bureau of Labor Statistics, August 1962).

[27] Labor force data are from the Current Population Survey. See *Handbook of Labor Statistics*, Bulletin 2340 (Bureau of Labor Statistics, August 1989).

[28] For an example of how Federal legislation has affected pension plan design, see Avy D. Graham, "How has vesting changed since passage of Employee Retirement Income Security Act?" *Monthly Labor Review*, August 1988, pp. 20–25.

[29] See *Employee Compensation in the Private Nonfarm Economy, 1974*, Bulletin 1963 (Bureau of Labor Statistics, 1977); and *Employment Cost Indexes and Levels, 1975–89*.

[30] See *Employee Benefits in Industry: A Pilot Survey*, Report 615 (Bureau of Labor Statistics, July 1980), p. 4; and *Employee Benefits in Medium and Large Firms, 1988*, p. 3.

[31] Such programs recently have been the subject of considerable policy debate, and several legislative proposals for mandating parental leave and child care currently exist. For more details on parental leave, see Joseph R. Meisenheimer II, "Employer provisions for parental leave," *Monthly Labor Review*, October 1989, pp. 20–24.

[32] See Joseph R. Meisenheimer II and William J. Wiatrowski, "Flexible benefit plans: employees who have a choice," *Monthly Labor Review*, December 1989, pp. 17–23.