



Highlights of [GAO-07-355](#), a report to the Chairman, Committee on Education and Labor, House of Representatives

Why GAO Did This Study

Many U.S. workers receive health and pension benefits from employers, and the cost of these benefits represents a growing share of workers' total compensation. Employers have made changes to control these rising costs, contending that these changes will allow them to remain competitive, particularly in an increasingly global market. Some advocacy groups are concerned that workers may receive reduced benefits or incur additional costs as a result of employers' cost-control strategies. Moreover, they contend that these changes may disadvantage certain groups of workers, such as sicker, older, or low-wage workers.

GAO was asked to examine the practices employers are using to control the costs of benefits. To evaluate changing employer benefit practices and their potential implications, GAO examined: (1) current and emerging practices employers are using to control the costs of health care benefits; (2) current and emerging practices employers are using to control the costs of retirement benefits; and (3) employers' workforce restructuring changes. GAO reviewed studies of employer benefit trends; interviewed representatives of business, government, labor, and consumer advocacy and research organizations; and reviewed and analyzed data from surveys of employee benefits. The Department of Labor provided technical comments, which were incorporated as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-07-355.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara D. Bovbjerg at bovbjergb@gao.gov, or John E. Dicken at dickenj@gao.gov.

EMPLOYER-SPONSORED HEALTH AND RETIREMENT BENEFITS

Efforts to Control Employer Costs and the Implications for Workers

What GAO Found

Many employers have recently changed health benefits, often to control costs. The share of employers offering health benefits has declined from 2001 to 2006, due mostly to an 8-percentage point drop in the share of small employers offering benefits. Many employers that offer health benefits have required workers to pay a higher share of out-of-pocket costs and some have recently introduced consumer-directed health plans, which trade lower premiums for significantly higher deductibles. Also, some employers now offer mini-medical plans that provide more limited coverage at lower premiums. Similar to coverage for active workers, an increasing share of retiree health benefits costs is being shifted to retirees and many employers have terminated benefits for future retirees—a trend that experts believe will continue. Some of these recent changes may affect some workers more than others, such as low-wage workers who are less able to afford higher out-of-pocket costs and less healthy workers who use more health care.

The trends in retirement benefits that have emerged over the last several decades are continuing. Active participation in defined benefit plans fell from 29 million in 1985 to 21 million in 2003 as employers terminated existing plans or froze benefits for active employees. At the same time, active participation in defined contribution plans rose from 33 million in 1985 to 52 million in 2003 as employers increased their offerings of these plans. Benefits experts stated that employers' decisions on what type of retirement plans to offer reflects their preference for benefit cost control and predictability in funding and accounting. Employers' decisions to offer defined contribution plans requires workers to assume more responsibility for their retirement planning; however, a growing number of employers are attempting to increase retirement savings by automatically enrolling workers and offering investment advice, for which recent legislation provides additional flexibilities.

Workforce restructuring through the use of contingent workers—workers who are not employed full-time and year round with an employer—may affect workers' access to and participation in benefit programs. Benefits experts presented mixed views on whether employers have been changing the composition of their workforces to reduce benefit costs.

Employers, individuals, and government share the responsibility for providing a U.S. benefits system that addresses the health and retirement needs of individuals of varying economic and health backgrounds, while allowing employers to remain competitive in a global market environment. The challenges workers face in assuming greater cost, risk, and control of their health and retirement benefits make it more difficult for low-wage earners to afford health care coverage and save for retirement. Although these challenges may weigh most heavily on the less wealthy and less healthy segments of the workforce, they affect a broad spectrum of the American workforce and could prove challenging to many over time.