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PENSION POLICY: THE CONNECTION TO JOB STABILITY AND JOB SECURITY

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Updated September 13, 2000

Abstract. This report opens with a discussion of the relationship between vesting and portability in the nation's private pension system and the ability of employees who hold multiple jobs over their work lives to accumulate adequate savings for their retirement needs. It then goes on to examine trends in job stability and job security because it has been argued that alleged declines in both measures make it all the more important for Congress to enact certain pension reforms.

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Pension Policy: The Connection to Job Stability and Job Security

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Summary

The view of pensions as a delayed benefit to which job leavers have a right has combined with concern over the adequacy of workers' retirement income to motivate federal pension policy. Mobile workers may sacrifice pension benefits if they leave a job before meeting a plan's length-of-service requirement, because of inflation-induced erosion of accrued funds in a defined-benefit plan (DB) between the time of departure from a firm and eligibility for retirement, if they do not preserve the value of vested accumulations from a defined-contribution (DC) plan because portability of benefits is not widespread or because they often use the funds immediately, or if they are employed by firms that do not provide pension benefits.

These possibilities have led Congress to pass some measures and consider others meant to spur more firms to provide pensions, thereby increasing the chance that job-changers will move from one pension-covered company to another. In addition, policymakers have imposed and strengthened vesting schedules so that fewer employees completely lose their right to accrued benefits when they change employers. A small majority of adult workers do not stay at firms long enough to reach the typical 5-year vesting period, however. Congress also has tried to adapt the pension system to the nation's mobile workforce by preserving the accumulated balances of job-changers through portability of benefits. But, relatively few participants in DB plans are covered by portability provisions. Moreover, only a slight majority of participants in DC plans are permitted to rollover or transfer accrued funds when they leave their current firms. And, a majority of benefit distributions to job-changers are cashed out for use as current income rather than preserved as pension savings for use upon retirement.

Interest in the nexus between pension policy and worker mobility has intensified in recent years due, in part, to firms' ongoing efforts to restructure their internal operations to become more competitive. Corporate restructuring has sometimes involved downsizing, in which the total workforce size has been reduced. It also has sometimes meant assigning functions once performed internally to contingent workers with whom firms typically do not develop long-lasting (i.e., secure) relationships. The continuing use of corporate layoffs and of contingent workers has created the image of a more turbulent labor market which, in turn, has prompted interest in adjusting pension policy to better match the needs of a seemingly more mobile labor force.

Based on analysis of job tenure, worker displacement and contingent employment data as well as a review of the economic literature, it appears that neither job stability nor job security has thus far undergone a substantial, long-term decline. Hence, one argument in favor of pension reform — that workers today are more often moving from job to job — is not supported by the available empirical evidence. Policymakers may think that job-changers are at risk of accumulating insufficient funds for use in retirement even at current levels of labor mobility, however, and that this circumstance justifies considering further modification of private pension laws.

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In the late 1800s, companies viewed pensions as a way to charitably remove from their payrolls older employees whose productivity had diminished.[1] In addition, some firms (e.g., those with sizeable hiring and training costs) wanted to discourage employee turnover and develop stable workforces.[2] They established and structured pensions toward that end, namely, as a reward for long-time continuous service. For these reasons, pensions often were not offered to employees who left firms before retirement.

With the passage of time, perceptions about pensions changed. They now are generally regarded as deferred compensation to which job-leavers or short-tenured workers are entitled.[3]

Pension Policy and Job Changers

The view of pensions as a delayed benefit to which job-leavers have a right has combined with a general concern over the adequacy of workers' retirement income to motivate federal pension policy. Workers — such as women who historically have had more sporadic employment patterns than men, or employees in industries with high job turnover — may sacrifice pension benefits when they change jobs. Mobile workers may forfeit retirement income in a variety of ways, including:

- the failure to meet a pension plan's length-of-service (i.e., vesting) requirement before separation,
- inflation-induced erosion of accrued funds in a defined-benefit (DB) plan between the time a worker leaves one firm and retires from another,
- the inability to rollover or transfer benefits from a defined-contribution (DC) plan into an individual retirement account (IRA) or a subsequent employer's pension plan,
- cashing out as current income rather than preserving as savings for use in retirement accrued benefits from a DC plan upon changing jobs, or

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[1] Turner, John A., Tabitha A. Doescher, and Phyllis A. Fernandez. *Pension Policy for a Mobile Labor Force*. Kalamazoo, Michigan, W.E. Upjohn Institute for Employment Research, 1993. (Hereafter cited as Turner, Doescher and Fernandez, *Pension Policy for a Mobile Labor Force*.)

[2] Gustman, Alan L., Olivia S. Mitchell, and Thomas L. Steinmeier. The Role of Pensions in the Labor Market: A Survey of the Literature. *Industrial Relations Research Review,* v. 47, no. 3, April 1994.

[3] Turner, Doescher and Fernandez, *Pension Policy for a Mobile Labor Force*.

- taking a new job with a business that does not offer pension benefits.

Coverage, Vesting, and Portability

Defined-Benefit and Defined-Contribution Pension Plans

"A defined-benefit plan legally obligates employers to pay retirees an annuity (based on a formula specified in the plan) at retirement age. The size of the benefit is typically based on salary and years of service. The employer is responsible for making contributions to the pension fund, investing the fund's assets, and paying benefits. With this type of plan, the employer has considerable latitude in deciding how to invest plan assets; but the employer also bears the entire risk, if investments perform poorly. If plan investments perform extraordinarily well, however, the employer may be able to reduce or suspend contributions to the plan for some period of time.

Defined-contribution plans typically specify the level of employer contributions to the plan but not the actual benefits that will be paid upon retirement. Defined-contribution plans may contain a provision for employees to contribute to their accounts, often on a pre-tax basis. Funds available at retirement depend on how much the employee and employer contribute to these accounts, as well as investment earnings. In contrast to defined-benefit plans, employees in defined-contribution plans bear the entire risk and reward of their investment decisions. There are several types of defined-contribution plans" including savings and thrift plans, deferred profit-sharing plans, money purchase pension plans, and stock plans.

"Some defined-contribution plans allow workers to contribute part of their earnings to an individual account and to defer income taxes on these contributions until the money is withdrawn, usually at retirement. These plans sometimes are called 401(k), 403(b), or Section 457 plans, after the sections of the Internal Revenue Code that permit them to be established." Most of these salary-reduction/tax-deferred plans "are savings and thrift plans, although salary-reduction features are sometimes included in" the other types of DC plans and in "free-standing 401(k) plans (to which employers do not make any contributions)."

Source: U.S. Department of Labor. *Report of the American Workforce*, Chapter 3, Employer Provided Retirement Plans. Washington 1997.

These possibilities have led Congress to pass some measures and consider others that are intended to encourage more firms to provide pension plans, thereby increasing the likelihood that job-changers will move from one pension-covered company to another.[4] Policymakers also have modified the nation's private pension system so that fewer employees will completely lose their right to pension benefits if

[4] Congress has, for example, enacted several laws aimed at encouraging small businesses to offer DC plans. Legislation has been introduced in the 106th Congress that is intended to spur small employers to offer DB plans. See the following for more information on pension policy and small business: CRS Report 96-243, *Simplified Employee Pensions: A Fact Sheet* and CRS Report 96-758, *Pension Reform: SIMPLE Plans for Small Employers*, both by James R. Storey; and CRS Report RL30122, *Pension Coverage: Recent Trends and Current Policy Issues*, by Patrick J. Purcell.

they change employers. Congress first imposed vesting schedules, which have been strengthened over time, in the Employee Retirement Income Security Act of 1974 (ERISA). Today, single-employer DB plans usually provide 100% vesting of accrued benefits to employees who have completed 5 years of service, with no entitlement to employer contributions before then. This type of vesting, called cliff vesting, also is commonly found in multi-employer DB plans, to which several firms contribute under collective bargaining arrangements. Full vesting of benefits in multi-employer DB plans typically occurred after 10 years of service but, under law, will now be treated like other DB plans with regard to vesting schedules when labor contracts are renegotiated. Although ERISA applies the same vesting requirements to employer contributions to DB and DC plans, participants in DC plans more often receive immediate full vesting or graduated vesting of benefits.[5] Of the relatively fewer participants in DC plans with cliff vesting, most are fully vested after 5 years. In 2000, however, 54% of workers age 20 or older had not yet been at their firms for the typical 5-year vesting period (52% of adult men; 56% of adult women).[6]

Congress also has taken steps to adapt the private pension system to the nation's mobile labor force by preserving the pension balances of workers who change jobs. Portability currently exists in two forms: service credit portability allows employees' cumulative work time at previous firms to count in determining benefits upon retirement from their last employer, and asset portability allows employees to deposit accrued pension funds into IRAs or to switch accrued sums into pension plans offered by subsequent employers. Relatively few participants in the dwindling number of DB plans[7] are covered by portability provisions;[8] however, the recent move toward cash-balance plans is changing the portability situation for workers in DB plans.[9] Most DB participants covered by portability provisions are in multi-employer plans negotiated by labor and management. As the unionized share of the labor force has declined, so too has the share of pension participants in multi-employer plans. In addition, a very

[5] With graduated vesting, the employee's right to the DC plan's **employer** contributions increases incrementally and usually reaches 100% after 5 years although up to 7 years are allowed under law. **Employee** contributions to either DB or DC plans are immediately vested. U.S. Bureau of Labor Statistics (BLS). *Employee Benefits in Medium and Large Private Establishments*. Various years. (Hereafter cited as BLS, *Employee Benefits in Medium and Large Private Establishments*.)

[6] BLS. *Employee Tenure in 2000*. USDL 00-245, August 29, 2000. (Hereafter cited as BLS, *Employee Tenure in 2000*.)

[7] The number of DB plans insured by the Pension Benefit Guaranty Corporation declined from a high of some 112,000 plans around 1980 to some 50,000 plans in the late 1990s. Strauss, David M. Pension Issues as Viewed by the Pension Benefit Guaranty Corporation in: Salisbury, Dallas (ed.). *Do Employers/Employees Still Need Employee Benefits?* Washington, Employee Benefit Research Institute, 1998.

[8] During much of the 1990s, less than 10% of full-time employees in medium and large private firms with DB plans were covered by portability provisions. The BLS first published information on this plan provision in its 1991 publication. BLS, *Employee Benefits in Medium and Large Private Establishments*.

[9] For more information on cash-balance plans see: CRS Report RL30196, *Pension Issues: Cash-Balance Plans*, by Patrick Purcell.

slight majority of participants in DC plans are permitted by their employers to rollover or transfer accumulated benefits when they change jobs.[10] And, according to an analysis conducted by the Employee Benefit Research Institute of Hewitt Associates' data, 60% of distributions to workers who changed jobs in 1996 were cashed out as current income rather than preserved as savings for use upon retirement. Although the rollover rate has increased since 1993 and large dollar distributions are rolled over more often than small distributions, the frequency of job change over a worker's career could argue for the importance of preserving relatively small vested pension balances.[11]

More Labor Mobility?

Interest in the nexus between pension policy and worker mobility has intensified in recent years due, in part, to the impact of economic change on the labor market. A legacy of the 1980s is the impression of firms restructuring their internal operations in order to become more competitive in a faster paced, global marketplace. Corporate restructuring has sometimes involved downsizing, in which hundreds of thousands of employees have been laid off annually and total workforce size has been reduced.[12] It also has sometimes meant assigning functions once performed by traditional workers (i.e., persons hired with the understanding that their attachment to the firm is not time-limited, barring poor individual or company performance) to contingent workers (e.g., temporary workers or independent contractors). Companies that use contingent workers typically do not develop long-lasting relationships with them and do not offer them pension or other benefits.[13] Consequently, contingent employment arrangements are viewed by some observers as less secure and desirable than traditional jobs. Because of the arguably increased churning of workers through firms, some members of the business and labor communities want to work along with policymakers "to reduce the costs of worker dislocation and mobility by encouraging the portability of health care and pension benefits ..."[14]

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[10] Generally, in the 1990s, less than 55% of full-time employees at medium and large private firms with savings/thrift DC plans were allowed to transfer or rollover benefits. The BLS first published information on this plan provision in its 1993 publication. BLS, *Employee Benefits in Medium and Large Private Establishments*.

[11] Yakoboski, Paul. Large Plan Lump-Sums: Rollovers and Cashouts. *EBRI Issue Brief*, Number 188, August 1997.

[12] For more information see: CRS Report 96-175, *Corporate Downsizing: Labor Market Aspects*, by Linda Levine. (Hereafter cited as Levine, *Corporate Downsizing*.)

[13] For more information see: CRS Report RL30072, *Temporary Workers as Members of the Contingent Labor Force*, by Linda Levine. (Hereafter cited as Levine, *Temporary Workers as Members of the Contingent Labor Force*.), and U.S. General Accounting Office. *Contingent Workers: Incomes and Benefits Lag Behind Those of Rest of Workforce*. HEHS-00-76, June 2000.

[14] Collective Bargaining Forum. *Principles for New Employment Relationships*. April 22, 1999 as reprinted in *Daily Labor Report*, April 30, 1999. p. E-4 and E-5.

The nation has enjoyed over 9 years of economic growth, with an unemployment rate that is at its lowest level in 3 decades. Nonetheless, the continuing use of corporate layoffs and of contingent employment arrangements has perpetuated the notion that firms have become less interested in maintaining a stable workforce and, in turn, that worker loyalty to a given employer has diminished. This situation has heightened interest in further adjusting pension policy to better match the needs of a seemingly more mobile labor force.[15] The remainder of this report will examine, from a variety of perspectives, whether labor mobility actually has increased in recent years.

Job Stability

If employees have been holding many more jobs over their work lives, then the length of time spent with the same employer (i.e., job tenure) should have diminished. Overall, the data do not appear to support this conclusion. During the 1980s and 1990s, the median job tenure[16] of wage and salary workers age 16 or older has fluctuated between 3.4 years (in 1987) and 3.8 years (in 1996). Most recently, in 2000, the typical worker had been with the same firm for 3.5 years.[17]

This stability is partly related to the aging of the baby-boom generation (i.e., persons born between 1946 and 1964) whose oldest members started turning 40 in the mid-1980s. Job-hopping is more common during individuals' initial years in the labor force while they search for better job matches which then have a greater chance of lasting. Voluntary (i.e., employee-initiated) job changes typically become less common once workers accumulate experience and settle on a career path.[18] According to data from the National Longitudinal Survey of Youth, the average person has 9.2 different jobs between the ages of 18 and 34, with more than half of the separations occurring before the workers are 25 years old.[19]

In contrast to the near constancy of median tenure across all wage and salary workers, trends by gender diverge. The different directions of men's and women's median job tenure hint at economic changes (e.g., cutbacks in manufacturing industries and thinning of management ranks) that seemingly have had a more adverse effect on men in general and on middle-aged to older men in particular. Between 1983 and 2000, median job tenure modestly *decreased* among men (from 4.1 years

[15] For information on pension proposals currently under consideration see: CRS Issue Brief 10028, *Pension Plans Offered by Private Employers: Legislative Issues in the 106th Congress*, by James R. Storey.

[16] Median tenure means that half of employees held their jobs for a shorter period and half for a longer period.

[17] Consistent data are not available before 1983 because of changes to the Current Population Survey's tenure questions. BLS, *Employee Tenure in 2000*.

[18] Topel, Robert H., and Michael R. Ward. Job Mobility and the Careers of Young Men. *The Quarterly Journal of Economics,* v. 107, no. 2, May 1992.

[19] BLS. *Number of Jobs, Labor Market Activity, and Earnings Growth Over Two Decades: Results from a Longitudinal Survey*. USDL 00-119, April 25, 2000.

to 3.8 years) despite the aging of the labor force.[20] The decline has been much steeper for 55-64 year old males, who reported a 5.1-year drop in median tenure (from 15.3 years to 10.2 years), and for 45-54 year old males, who reported a 3.3-year drop (from 12.8 years to 9.5 years). In contrast, median job tenure modestly *increased* among women, from 3.1 years in 1983 to 3.3 years in 2000. The increase reflects the aging of many baby-boom women beyond the usual child-bearing years and the greater attachment of women over time to the paid labor force. In particular among women, those between 45 and 54 years of age experienced the largest gain in job stability: their median job tenure lengthened from 6.3 years to 7.3 years during the 1983-2000 period.

Looked at another way, if individuals have been changing jobs much more often than in the past, the fraction of short-tenured workers should have increased and the fraction of long-tenured workers should have decreased. As shown in **Table 1**, however, just the opposite occurred among workers with less than 3 years and with 10 or more years of tenure. Thus, "permanent" or "lifetime" employment relationships continue to characterize the U.S. labor market for about one-fourth of employed wage and salary workers. But, *the composition of long-time jobholders has shifted*. Men represented 64% of all employees who were at their firms for at least 10 years in 1983. By 2000, men's presence among long-tenured workers had fallen to 55%.[21]

Although the magnitude has not been large enough to affect overall job stability, men's tenure distribution has changed in the manner reported by the mass media. As shown in **Table 1**, the fraction of men with less than 3 years of service increased 1.03 percentage points while the fraction of men with 10 or more years of seniority decreased 1.88 percentage points. As shown in **Table 2**, the falloff in the proportion of long-tenured males has been especially steep for those in the middle to latter part of their work lives. The share of 35-44 year old men who were with their current employers for at least 10 years dropped sharply, by 8.31 percentage points. Among men age 45-54, the fraction with at least 10 years of tenure plummeted 9.8 percentage points; and among men age 55-64, the proportion fell 12.69 percentage points.

[20] BLS, *Employee Tenure in 2000*.

[21] BLS. Unpublished data from the Current Population Survey.

Table 1. Tenure Distribution of Employed Wage and Salary Workers Age 16 or Older by Gender, 1983 and 2000

Gender	Total (000)	Less than 3 years	3-5 Years	6-9 Years	10 or more years
All workers					
1983	85,353	40.43	22.04	12.04	25.15
2000	120,303	40.16	22.18	11.05	26.60
Percentage point change	—	-0.27	0.14	-0.99	1.45
Male workers					
1983	45,778	37.62	20.14	11.71	30.18
2000	62,306	38.65	22.03	11.01	28.30
Percentage point change	—	1.03	1.90	-0.69	-1.88
Female workers					
1983	39,575	43.68	24.24	12.43	19.33
2000	57,997	41.79	22.34	11.09	24.78
Percentage point change	—	-1.88	-1.90	-1.34	5.45

Note: Percentages may not add to 100 due to rounding.

Source: U.S. Bureau of Labor Statistics. Unpublished data from the Current Population Survey.

More sophisticated studies of job stability have controlled for differences in workers' personal and employment characteristics and have tried to adjust for various shortcomings of the above-described data from the Current Population Survey's tenure supplement.[22] Some researchers have used other surveys in their examination of trends in job stability, but they too have drawbacks.[23]

[22] The wording of questions in the Current Population Survey (CPS) tenure supplement changed such that pre-1983 responses might lead to understatement of tenure (i.e., before 1983 respondents were asked about time spent in their job while since then they were asked about time spent with their current employer). Individuals' responses are clustered around certain tenure intervals (e.g., reporting durations of job tenure ending in 0 or 5), which suggests recall problems or rounding errors. The nonresponse rate to tenure questions sometimes varies from one survey year to another, and this can bias estimated retention rates.

[23] One alternative is the Panel Study of Income Dynamics (PSID). Unlike the CPS, from which researchers must derive synthetic age cohorts from cross-sectional data, the PSID is a longitudinal survey (i.e., it follows the same individuals over time). Estimates based on PSID (continued...)

Table 2. Tenure Distribution of Employed Male Wage and Salary Workers by Selected Age Groups, 1983 and 2000

Male workers	Total (000)	Less than 3 years	3-5 Years	6-9 Years	10 or more years
35-44 years old					
1983	9,715	25.34	17.66	13.76	43.15
2000	17,023	28.56	22.41	14.20	34.84
Percentage point change	—	3.21	4.74	0.44	-8.31
45-54 years old					
1983	7,156	16.99	12.47	10.48	59.95
2000	12,858	21.33	17.09	11.43	50.15
Percentage point change	—	4.33	4.63	0.95	-9.80
55-64 years old					
1983	5,062	14.44	10.90	8.67	65.98
2000	5,841	18.32	17.14	11.25	53.30
Percentage point change	—	3.88	6.23	2.58	-12.69

Note: Percentages may not add to 100 due to rounding.

Source: U.S. Bureau of Labor Statistics. Unpublished data from the Current Population Survey.

[23](...continued)
data may be affected by attrition of respondents and may be imprecise given its small sample size. Like the CPS, the PSID's tenure questions have changed over the years. There also are inconsistencies between years in the same individual's responses to the PSID tenure questions. Another alternative is the National Longitudinal Survey of Youth (NLSY) which, like the PSID, suffers from attrition of respondents who are queried over time. The NLSY collects information in such a way as to minimize recall problems and rounding errors. Unlike the CPS and PSID, its questions about job changes have been consistent over time. Like the PSID, in which only household heads were asked about tenure, consistent information from the NLSY is available only for men; the NLSY originally focused on young men rather than youth generally. While the CPS and PSID samples are representative of the entire population, the NLSY is not.

Results from these studies are mixed, with some estimating sizable decreases[24] and others finding little change[25] in the trend of aggregate job stability through the 1980s. The disparate outcomes for job stability estimated in these studies and those covering the 1990s (discussed below) largely result from the unique characteristics of the databases, the varying methods researchers used to overcome the databases' shortcomings, the diverse measures of job stability developed by analysts,[26] and the different time periods covered.[27]

One set of economists who extended their analysis from the 1980s through 1995 reported a modest decrease in overall job stability.[28] Neumark, Polsky and Hansen noted that the decline might have been steeper were the labor force not aging toward the years of generally fewer job changes. In contrast, Stewart found that job stability increased as the rate of job separations across all workers had fallen slightly between 1975 and 1995.[29] And, in a third study, Farber concluded that aggregate job duration was unchanged over the 1973-1993 period.[30] Thus, *no consensus exists in the economic literature that overall job stability has changed over time*.

The empirical research does confirm that groups within the labor force have exhibited divergent trends in job tenure. Studies consistently agree that women's job stability has increased in recent decades as they have become more committed to

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[24] Swinnerton, Kenneth A., and Howard Wial. Is Job Stability Declining in the U.S. Economy? *Industrial and Labor Relations Review*, v. 48, no. 2, January 1995; Rose, Stephen. *Declining Job Security and the Professionalization of Opportunity*. Washington, D.C., National Commission for Employment Policy, May 1995; and Monks, James, and Steven D. Pizer. Trends in Voluntary and Involuntary Job Turnover. *Industrial Relations*, v. 37, no. 4, October 1998.

[25] Diebold, Francis X., David Neumark, and Daniel Polsky. Job Stability in the United States. *Journal of Labor Economics*, v. 15, no. 2, 1997.

[26] Analysts have calculated different indicators of job stability including the retention rate (i.e., the probability of workers who have a given tenure level staying additional years with their current employers), the turnover or separation rate (i.e., the fraction of all employed respondents who left a job in one period and were in another job or were unemployed or no longer in the labor force in a subsequent period), and the trend in the distribution of job tenure.

[27] Jaeger, David A., and Ann Huff Stevens. Is Job Stability in the United States Falling? Reconciling Trends in the Current Population Survey and the Panel Study of Income Dynamics. *Journal of Labor Economics*, v. 17, no. 4, part 2, October 1999.

[28] Neumark, David, Daniel Polsky, and Daniel Hansen. Has Job Stability Declined Yet? New Evidence from the 1990s. *Journal of Labor Economics*, v. 17, no. 4, part 2, October 1999. (Hereafter cited as Neumark, Polsky and Hansen, *Has Job Stability Declined Yet?*)

[29] Stewart, Jay. *Has Job Mobility Increased? Evidence from the Current Population Survey: 1975-1995*, Working Paper 308. Washington, D.C., February 1998. (Hereafter cited as Stewart, *Has Job Mobility Increased?*)

[30] Farber, Henry S. Are Lifetime Jobs Disappearing? Job Duration in the United States: 1973-1993, in Haltiwanger, John, Marilyn Manser, and Robert Topel (eds.) *Labor Statistics Measurement*. Chicago, Ill., University of Chicago Press, 1998. (Hereafter cited as Farber, *Are Lifetime Jobs Disappearing?*)

ongoing participation in the paid labor force.[31] The picture for men is clouded, with some analysts estimating more job changes[32] and others near constancy[33] through the first part of the 1990s. Despite these disparate findings for men, on average the research does suggest that the job stability of less educated men (i.e., those with less than 12 years of schooling) and of older, long-tenured men (i.e., about 10 or more years of tenure or work experience) has decreased through the first half of the 1990s.[34] Perhaps, rather than workers moving from one job to another more often today than in the past, the composition of short-tenured and long-tenured workers is changing.

Job Security

Job tenure reflects both voluntary (e.g., quits and retirements) and involuntary (e.g., layoffs and plant closings) labor mobility. While tenure is a good measure of job stability, it is not as good an indicator of job security. Job security concerns only involuntary (i.e., employer-initiated) separations, the incidence of which could have increased even as overall job duration has held steady. For example, many workers who thought they held secure jobs might be permanently laid off and others, observing their plight, might decide to stay put rather than quit to seek opportunities elsewhere; as a result, the dampened quit rate might fully offset the elevated dismissal rate thereby creating stable job durations despite workers' heightened vulnerability to job loss.[35]

There is a widespread impression that more workers today are unable to keep their jobs for as long as they like despite their continued good performance. Not only could this come about because firms are permanently laying off greater numbers of employees than in the past, but also because firms are hiring less and contracting more with business services companies (e.g., for janitorial or photocopying personnel), staffing companies (e.g., for temporary workers) or independent contractors (e.g., for computer systems expertise). The trend in job security as measured by involuntary job loss and contingent employment arrangements is analyzed below.

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[31] Schmidt, Stephanie R., and Shirley V. Svorny. Recent Trends in Job Security and Stability. *Journal of Labor Research*, v. 19, no. 4, fall 1998.

[32] Bernhardt, Annette, Martina Morris, Mark S. Handcock, and Marc A. Scott. Trends in Job Instability and Wages for Adult Young Men. *Journal of Labor Economics*, v. 17, no. 4, part 2, October 1999; Farber, *Are Lifetime Jobs Disappearing?*; Marcotte, Dave E. Has Job Stability Declined? Evidence from the Panel Study of Income Dynamics. *The American Journal of Economics and Sociology*, v. 58, April 1999 (Hereafter cited as Marcotte, Has Job Stability Declined?.); and Neumark, Polsky and Hansen, *Has Job Stability Declined Yet?*

[33] Stewart, *Has Job Mobility Increased?*

[34] Farber, *Are Lifetime Jobs Disappearing?*; Marcotte, *Has Job Stability Declined?*; Neumark, Polsky, and Hansen, *Has Job Stability Declined Yet?*; and Stewart, *Has Job Mobility Increased?*

[35] Valletta, Robert G. Has Job Security in the U.S. Declined? *FRBSF Weekly Letter*, no. 96-07, February 16, 1996.

Involuntary Job Loss

The Displaced Worker Survey (DWS) was initiated in the 1980s to develop comprehensive information on workers' allegedly greater risk of job loss. According to data from the DWS, the trend in the displacement rate (i.e., the number of job losers as a proportion of persons employed) has generally reflected the trend in the unemployment rate — increasing in recessionary periods (e.g., 1981-1982 and 1990-1991) and decreasing as economic recoveries lengthened. (See **Table 3**.) *As shown by declining displacement rates since the last recession, job security has increased in the last several years*.

Table 3. Displacement Rates for Workers Age 20 or Older by Job Tenure, 1981-1998

Survey period	All workers	Workers with 3 or more years of job tenure	Workers with less than 3 years of job tenure
1981-1982	5.7	3.9	8.9
1983-1984	4.1	3.1	5.7
1985-1986	4.0	3.1	5.4
1987-1988	3.2	2.4	4.7
1989-1990	4.3	3.1	6.5
1991-1992	4.9	3.9	6.6
1993-1994	4.4	3.3	6.5
1995-1996	3.9	2.9	5.5
1997-1998	3.4	2.5	4.9

Source: Hipple, Steven. Worker Displacement in the mid-1990s. *Monthly Labor Review*, July 1999, and unpublished data from the Displaced Worker Survey.

When roughly the same points in the business cycle are compared, however, job security appears to have slightly diminished in the 1980s compared to the 1990s. As shown in **Table 3**, the risk of job loss across all workers rose 0.2 percentage points from 3.2% in 1987-1988 to 3.4% in 1997-1998. Schultze also concluded that the cyclically-adjusted displacement rate rose somewhat between the 1981-1982 and 1993-1994 periods before falling to almost its original level in the 1995-1996 period. Although the increase in the cyclically-adjusted displacement rate before the mid-1990s was not trivial, "its absolute magnitude was a good bit less than one would infer from the media treatment of the "downsizing" problem."[36]

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[36] Schultze, Charles L. *Has Job Security Eroded for American Workers?*, p. 41-43, in Blair, Margaret M., and Thomas A. Kochan (eds.) *The New Relationship: Human Capital in the* (continued...)

This small change might be related to the twofold increase since the late 1980s in the fraction of workers who lost jobs because their "position or shift was abolished." In contrast, the share of workers who lost jobs because their positions or shifts were eliminated remained fairly constant during the 1980s.[37] This reason for displacement (i.e., abolition of position/shift)[38] comes closest to capturing corporate restructuring — a phenomenon whose advent appears coincident with the 1990s recession and which has continued during the remainder of the decade.[39] Corporate downsizing appears to have focused on one type of employee in particular: 39% of white-collar workers displaced in the 1995-1996 period offered position/shift abolishment as the reason for job loss compared to 17% of displaced blue-collar workers.[40]

Farber also found evidence to support the notion that corporate restructuring has had an adverse impact on job security generally and on the job security of managers within the white-collar ranks especially. After adjusting the DWS data for changes in question wording and recall period, among other things, he estimated that among all 20-64 year old workers the rate of job loss due to position/shift abolished was higher in the 1990s than in the 1980s.[41] This was especially true for older workers (i.e., 45-64 year olds) and more educated workers (i.e., workers with at least postsecondary schooling). In addition, all of the increase in the displacement rate of managers between 1987-1989 and 1991-1993 was related to their positions being eliminated.

> There is a potentially important message in this finding regarding managers. At least two interpretations of corporate restructuring have implications for job security. The first is that corporations are moving toward a mode of organization that relies less on long-term relationships with workers and, hence, less investment in workplace-specific skills. This trend would imply a permanent increase in rates of job loss. The second interpretation is that corporations are adjusting their mix of workers to reflect new production arrangements. This trend would imply a "onetime" adjustment in the number of managers, resulting in a temporary increase

[36](...continued)
American Corporation. Washington, D.C., Brookings Institution Press, 2000. (Hereafter cited as Schultze, *Has Job Security Eroded for American Workers?*)

[37] Valletta, Rob. Job Loss during the 1990s. *FRBSF Economic Letter*, no. 97-05, February 21, 1997. (Hereafter cited as Valletta, *Job Loss during the 1990s*.)

[38] Other reasons for displacement include "slack work" and "plant closings or relocations." Relatively more displaced workers report slack work as the reason for their dismissal during recessions, while the fraction of workers separated due to plant closings/relocations has held fairly steady over time.

[39] Levine, *Corporate Downsizing*.

[40] Hipple, Steven. Worker Displacement in the mid-1990s. *Monthly Labor Review*, July 1999.

[41] Farber, Henry S. The Changing Face of Job Loss in the United States, 1981-1995. *Brookings Papers on Economic Activity: Microeconomics, 1997*. Washington, D.C., The Brookings Institution, 1997. (Hereafter cited as Farber, *The Changing Face of Job Loss in the United States, 1981-1995*.)

> in rates of job loss for managers. The [subsequent] decline in job-loss rates for managers in the 1993-95 period is preliminary evidence consistent with this [latter] interpretation.[42]

Seniority still confers some measure of job security according to the much higher displacement rates of short-tenured as compared to long-tenured workers in **Table 3**. (The U.S. Bureau of Labor Statistics defined long-tenured workers as those employed at least 3 years by the firms that terminated them.) Nonetheless, Valletta calculated that the displacement rate for employees with at least 15 years of job tenure was higher in the 1991-1995 period than in the 1989-1991 period, while at the same time rates for less senior workers fell substantially. This finding, along with atypically high displacement rates for some other members of the labor force during the ongoing economic expansion (e.g., white-collar workers), led Valletta to suggest that "the key source of these displacements (position or shift abolition) was aimed at specific groups of employees rather than a firm's entire workforce (as is the case with the plant closing or slack work categories)."[43]

Limiting their analysis of the DWS data to high-seniority workers, whom they defined as having at least 5 years of job tenure, Aaronson and Sullivan also concluded that — despite improvement in aggregate job security between 1990 and 1995 — the risk of job loss from the abolition of shifts/positions rose sharply. Although the chance of losing a job for this reason decreased somewhat in 1997, it continued to be twice as high as during the 1980s.[44]

The researchers, much like Farber, Valletta, and Schultze,[45] found that displacement has become more "democratic" over the years. In other words, groups that previously were fairly immune to layoffs became less so during the 1990s recession (i.e., men, workers with college degrees, those in white-collar occupations or in the service sector), while groups with high displacement rates during the 1980s recession fared much better in the 1990-1991 recession (i.e., women, workers lacking a college degree, those in blue-collar occupations or in the goods-producing sector). In an attempt to reconcile the falling displacement rates since the mid-1990s with workers' continuing anxiety about job security, Aaronson and Sullivan speculated that

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[42] *Ibid*., p. 77.

[43] Valletta, *Job Loss During the 1990s*, p. 3.

[44] Aaronson, Daniel, and Daniel G. Sullivan. Recent Trends in Job Displacement. *Chicago Fed Letter*, no. 136, December 1998.

[45] In Schultze, *Has Job Security Eroded for American Workers?*, p. 47, the economist calculates that in the early 1980s

> permanent layoffs among white-collar workers were one-third as large as layoffs among blue-collar workers. Since then the white-collar rate has risen substantially, while the blue-collar rate has irregularly edged downward, until in the early 1990s the white-collar rate reached and then remained at four-fifths of the blue-collar rate. [While] a relatively high frequency of layoffs among blue-collar workers has most probably always existed ... layoffs of this magnitude are a new thing for white-collar workers, which may help explain the vivid public perceptions and media publicity about layoffs in recent years.

the "increased democratization of displacement" may be prompting "many more workers ... [to now] consider themselves at risk for job loss."[46]

In contrast, an analysis based on the PSID concluded that the risk of job loss increased between the 1968-1979 period and the 1980-1992 period for a small sample of male household heads age 25-59 who had been with their firms for at least 12 months and who had worked at least 1,000 hours during the previous year.[47] Reasons why this estimate differs from those in other studies that *overall* job security has not undergone a long-term decline include the following: (1) the PSID asked about job changes that occurred over a 12-month period during most years between 1968 and 1992, but from 1984-1987 the reporting period was closer to 18 months which raises the possibility of more job separations having occurred during the 1980s due to the longer reporting period; (2) the analysis ended in 1992, before the economic recovery was well underway; and (3) by focusing solely on men, the results tend to overstate the aggregate decline in job security during the 1980s compared to the 1970s because women's risk of job loss rose less than that of men.[48]

In another study that also covered multiple decades (mid-1970s to mid-1990s), Stewart based his finding of stable job security on estimates of constant employment-to-unemployment (EU) transition rates.[49] He provided two possible explanations for the public's perception of decreased job security in the 1990s, the first being the unusually long recovery time from the mild 1990-1991 recession. The atypically weak rebound on the employment front was dubbed "the jobless recovery" until about 1995. For example, because it took 3-4 years for the EU transition rate of men with at least a high school education to return to its pre-recession level, people might have come to believe the situation was permanent rather than transitory. In addition, EU transition rates were higher during the mild 1990s recession than the deep 1980s recession for male college graduates who historically have been comparatively insulated from cyclical shocks to the economy. This also was the case for older men (i.e., those with 21 or more years of work experience). Stewart therefore hypothesized that the high EU rates for these fairly immune groups during a weak economic downturn might have prompted people to think that something other than a short-run decline in job security was taking place.[50]

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[46] Aaronson, Daniel, and Daniel G. Sullivan. The Decline of Job Security in the 1990s: Displacement, Anxiety, and Their Effect on Wage Growth. *Economic Perspectives,* first quarter 1998, v. 22, no. 1, p. 18.

[47] Boisjoly, Johanne, Greg J. Duncan, and Timothy Smeeding. The Shifting Incidence of Involuntary Job Losses from 1968 to 1992. *Industrial Relations,* v. 37, no. 2, April 1998.

[48] Stewart, Jay. *Did Job Security Decline in the 1990s?* March 1, 1999. (Hereafter cited as Stewart, *Did Job Security Decline in the 1990s?*.)

[49] Employment-to-unemployment (EU) transitions were considered to have occurred when an individual worked during the previous year and was unemployed during the Current Population Survey's reference week in March in the current year. The researcher determined the that the EU transition rate tracked job losers well and therefore was a good proxy for job security.

[50] Stewart, *Did Job Security Decline in the 1990s?*

It could be argued that the public's perception is correct, and instead, that the empirical research is missing something. Perhaps the disconnect is that the media accounts that have shaped public opinion have focused on downsizing at the nation's largest corporations, while most workers are employed by firms with less than 1,000 employees and the databases that analysts use question all individuals regardless of firm size.[51] Allen, Clark, and Schieber looked specifically at what has happened during the 1990s to job stability at 51 large corporations to determine whether their experiences were accurately reflected in the popular press. They further divided their small, unrepresentative sample between large companies whose employment had grown (19) or shrunk (32). As would be expected, the likelihood of employees remaining at their current firms was higher at expanding versus downsizing firms; however, the probability of mid-career employees (i.e., 10-19 years of service) staying with their current employers was virtually the same regardless of the firm's job growth trend. Contrary to media accounts, this finding implies that downsizing has not been aimed at mid-career workers. In addition, the researchers estimated that the retention rate of junior employees (i.e., 0-4 years service) fell but that of senior employees (i.e., 20 or more years of service) was unaffected among the large corporations that downsized their operations. In other words, as has traditionally been the case, they found that short-tenured workers bore the brunt of layoffs in the 1990s.

Lastly, in a study that analyzed both job stability and job security over the 1979-1996 period, Farber similarly concluded that employers have *not* been focusing their layoffs on senior employees (i.e., those with more than 10 years or more than 20 years of service). After adjusting for changes in personal and job characteristics over time, he estimated that the share of men in long-term jobs fell *but* that corporate downsizing does not appear to have been the culprit because the rate of job loss among long-tenured men did not rise between 1979 and 1996. Farber suggested two reasons why job stability has diminished for long-tenured men:

> (1) women's long-run increase in labor force attachment may have prompted employers to regard them as "viable substitutes for men in long-term employment relationships," or (2) the basic employment relationship may have been "changed toward a model with less long-term job security,"[52]

a possibility that is discussed in the following section of this report.

[51] Allen, Steven G., Robert L. Clark, and Sylvester J. Schieber. *Has Job Security Vanished in Large Corporations?* Working Paper 6966. Cambridge, Mass., National Bureau of Economic Research, February 1999.

[52] Farber, Henry S. *Trends in Long Term Employment in the United States, 1979-1996*. Working Paper #384. Princeton, N.J., Industrial Relations Section, Princeton University. July 1997. p. 25.

Contingent Work Arrangements

The label commonly applied to jobs that are less secure than traditional positions (i.e., jobs presumed to be permanent barring poor individual or company performance) is contingent work arrangements. Systematic, comprehensive statistics on these short-duration employment relationships did not become available until BLS conducted its first survey on the subject in 1995.[53] Before then, analysts cobbled together statistics on contingent workers from a variety of sources which resulted in double-counting that inflated the estimate of the group and that affected its composition. Based on BLS' broadest definition of contingent work arrangements, they numbered more than 5.6 million in 1999 or less than 5% of employed persons. (See footnotes to **Table 4** for the BLS' three alternative definitions of contingent workers.)

Table 4. Selected Data on Contingent Workers, 1995, 1997, and 1999

Contingency definitions[a]	Contingent workers (000)	Contingency rate[b]
Narrowest		
1995	2,739	2.2
1997	2,385	1.9
1999	2,444	1.9
Intermediate		
1995	3,422	2.8
1997	3,096	2.4
1999	3,038	2.3
Broadest		
1995	6,034	4.9
1997	5,574	4.4
1999	5,641	4.3

Source: Hipple, Steven. Contingent Work: Results from the Second Survey. *Monthly Labor Review*, November 1998, and *Contingent and Alternative Employment Arrangements*, February 1999. USDL 99-362. December 21, 1999.

[a]The generic definition of contingent workers is persons who do not regard themselves as having an understanding, either explicit or implicit, with their employers that their positions are permanent. BLS developed three operational definitions of contingent workers. The *narrowest* definition is wage and salary workers who worked for their current employer for 1 year or less and who expect to continue with the same firm for 1 year or less. Temporary help industry workers and employees of

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[53] Some researchers do not agree with BLS' definitions of contingent workers. For more information see: Levine, *Temporary Workers as Members of the Contingent Labor Force*.

business services contractors are asked to respond to the job duration requirements with reference to the firms that issue their paychecks. Wage and salary workers who report that they could stay with their firms but expect to leave within the year for personal reasons are excluded as are the self-employed and independent contractors. The *intermediate* definition adds to the narrowest definition of contingent workers those self-employed persons and independent contractors who expect to be, and have already been, in these work arrangements for 1 year or less. Temporary help industry workers and employees of business services contractors are asked to respond to the job duration requirements with reference to the customers to whom they were assigned. The *broadest* definition removes the requirements about current and expected job tenure for wage and salary workers. Thus, most persons who do not expect their employment to last (except for personal reasons) are included. The job duration requirements are not relaxed for self-employed persons or independent contractors.

[b]The contingency rate is the share of the employed population in time-limited jobs.

With all three data points in the current decade, it is not possible to determine a long-term trend in job security as measured by the incidence of contingent employment arrangements. As the proportion of workers with contingent jobs has decreased since 1995, it suggests that *job security has increased as the 1990s economic expansion has lengthened*. The inference of enhanced job security in the last few years is reinforced by other data in the contingent worker survey. Almost one-fourth of contingent workers in 1995 said they were in these short duration jobs because it was "the only type of work [they] could find." Two years later, under one-fifth gave the same response. In contrast, the fraction of workers who chose contingent jobs for personal reasons (e.g., family obligations, scheduling flexibility, and attending school) increased between 1995 and 1997.[54]

Concluding Remarks

A long-run decline in *overall* job stability does not appear to have occurred to date, in part, because women's increased job tenure has offset any decrease in some men's job duration (e.g., males with long years of service at their employers). Job security also does not seem to have diminished. The spread of unusually high displacement rates during the mild 1990-1991 recession to groups that traditionally were insulated from economic downturns and with whom many individuals compare themselves (e.g., middle-aged and older males) may have misled the public into believing that the *average* worker's risk of job loss or necessity of accepting contingent jobs was permanently rather than temporarily elevated. The labor market's comparatively slow rebound from the mild 1990s recession also may have contributed to the public's impression that a long-run rather than short-run (cyclical) phenomenon was taking place. Apparently, then, one argument for enacting pension reform — that the *typical* worker today is more often moving from job to job — is not supported by the available empirical evidence.

Nonetheless, policymakers may think that job-changers are at risk of accumulating insufficient pension funds for use in retirement even at the current level of labor mobility and that this circumstance justifies considering further modification of the nation's private pension system. For example, many workers:

[54] Devens, Richard M. At Issue: Gains in Job Security. *Monthly Labor Review*, March 1998.

- are not assured of obtaining pension benefits when they change jobs,
- often leave jobs before completing the typical 5-year vesting period, or
- do not preserve the value of vested balances from their former jobs because pension portability is not widespread or because they cashout accrued funds for immediate use.