

No Guarantees



Professors in this country have long enjoyed certain features of campus life: leafy strolls through the college grounds, a spirit of community and open debate, and, of course, tenure. But lately even the job security traditionally associated with faculty membership is being reconsidered. Tenure, like so many other benefits American workers used to expect, is no longer a given part

of the employee-employer pact.

In this issue of *Region Focus*, we examine the labor market in higher education. Universities increasingly are hiring faculty members on a part-time or adjunct basis. Tenure-track jobs are in shorter supply. At first glance, it might appear that cost-conscious university administrations are driving this trend. But another narrative is that there is a new breed of faculty candidates who don't consider tenure particularly important. They might favor work on a contract basis. While tenure has its appeal, some candidates are more than willing to trade it for job mobility and the flexibility that comes with it.

What's clear is that the amount of time people typically spend in one position or with one organization is becoming shorter across all sectors of the U.S. economy, not just in higher education. This trend has important implications for the broader labor market — for example, the fact that general skills have grown more important than job-specific skills. It is likely no coincidence that in this more dynamic labor market, the role of retirement benefits is evolving as well.

Retirement benefits still make up a large share of how much employers spend on their workers' total benefit packages, just not as large as in the past. In 1960, pension and other benefits accounted for almost 60 percent of total benefit spending, compared with closer to 46 percent today. The new wrinkle is in how benefits are structured. Health benefits, for example, require greater attention from employees in terms of selecting insurance coverage.

But nowhere is the shift to employee-accountable benefits more evident than in the retirement realm. There has been a nearly wholesale move away from so-called "defined benefit" pension plans to "defined contribution" plans. Defined benefit pensions guarantee a post-retirement income stream for life, with little or no oversight by employees. Defined contribution plans, usually in the form of 401(k)s, oblige workers to make choices affecting their financial futures, with employees bearing all of the investment risk.

Consider these figures: More than half of all full-time employees have some sort of pension coverage, a percentage that has declined a little over time but not much. During the same period, pensions of the defined benefit variety have dropped from 69 percent to less than 40 percent among full-time employees with pensions. Today, 80 percent of all full-time employees covered by pensions have defined contribution plans.

One of the leading reasons why this trend is taking place has to do with the changes I have described in the U.S. workplace. The ultimate value of a defined benefit pension depends on a combination of the worker's length of employment and highest wage. As a result, these traditional pension plans reward employees who stay with their employers.

The decline in defined benefit plans has coincided with the decline in job tenure. For men, expected job tenure fell 18 percent between 1983 and 2001. While employers have moved away from defined benefit pensions in part because of their high costs, they also have done so because employees no longer value them as highly. In today's dynamic labor market, employees increasingly prefer portable retirement plans.

It looks as if 401(k) plans will be not only the retirement plan of the present, but also of the future. Of course, these plans carry the risk that employees' retirement years won't be adequately funded. Indeed, many studies have shown that some workers aren't setting aside enough in their 401(k) plans, and often falling short of maximizing the impact of their employer matches. About one in five eligible employees fails even to sign up for their firms' 401(k) plans. Those who do are responsible for making investment choices in their portfolios, a chore that previously was handled by professional managers. Fewer employers now bear the investment risk associated with their employees' pensions.

While these changes can be viewed positively since they give workers greater control over their retirement options and greater flexibility to change jobs, they require an increased level of financial awareness. Innovations like automatic enrollment in 401(k) plans are helping. But with life expectancies rising and the well-publicized troubles facing Social Security, the future well-being of our citizens depends more than ever on their financial savvy.

A handwritten signature in black ink, appearing to read "J M Lacker". The signature is stylized and cursive.

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