

# Microhistory of Employee Benefits and Compensation

The Hewitt logo consists of the word "Hewitt" in a white, serif font, centered within a dark blue square.

September 2009

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## Microhistory of Employee Benefits and Compensation, 1636–2009

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This microhistory highlights the major events and legislation that Hewitt Associates believes influenced the growth and quality of employee benefit plans and compensation practices in the United States from 1636 to 2009. (For more detailed information on legislation affecting employee benefits and compensation, see Hewitt's [Summary of Major Post-ERISA Benefit Legislation](#).)

Historical sources are sometimes contradictory and unclear and, therefore, this timeline may be imperfect. However, this list provides a valuable tool to examine developments and trends in employee benefits and compensation over the past 350-plus years.

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## Early Beginnings

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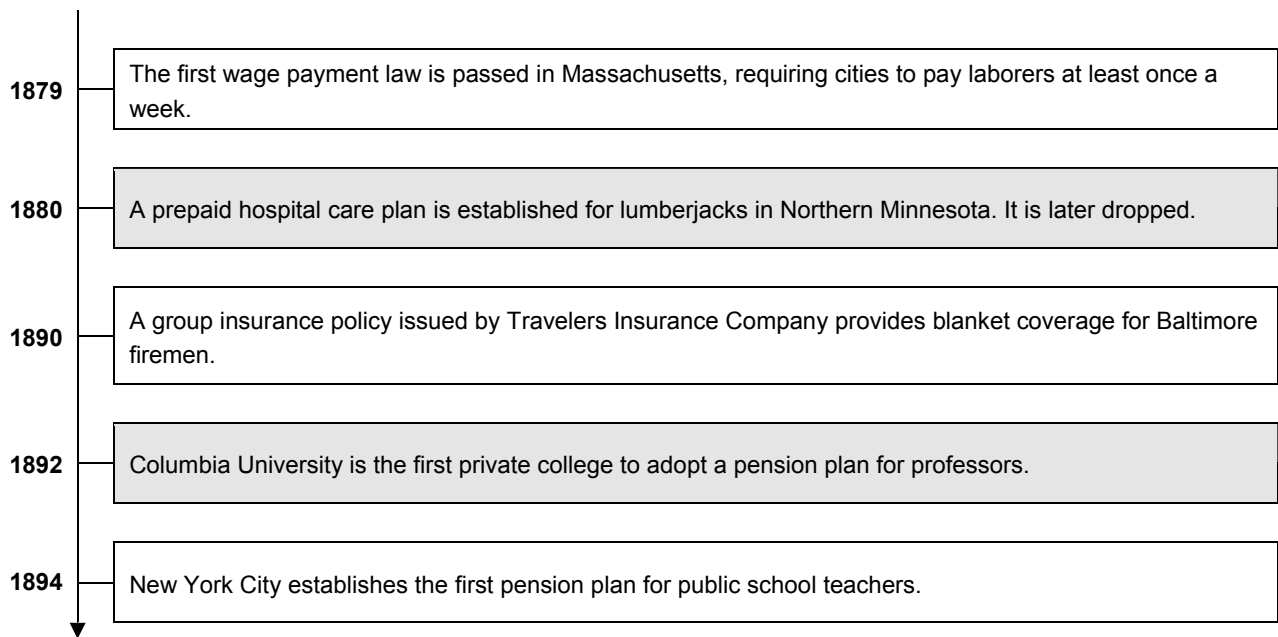
The timeline begins in 1636, when the first pension law was enacted in the colony of Plymouth (part of present-day Massachusetts). During the late 1700s, the first profit-sharing plan appeared and the U.S. Marine Hospital Service—predecessor of today's public health service—was created.

Notable developments in the 1800s include: the first private pension plan, the first wage payment law, and the first group insurance policy.

### 1600s, 1700s, and 1800s

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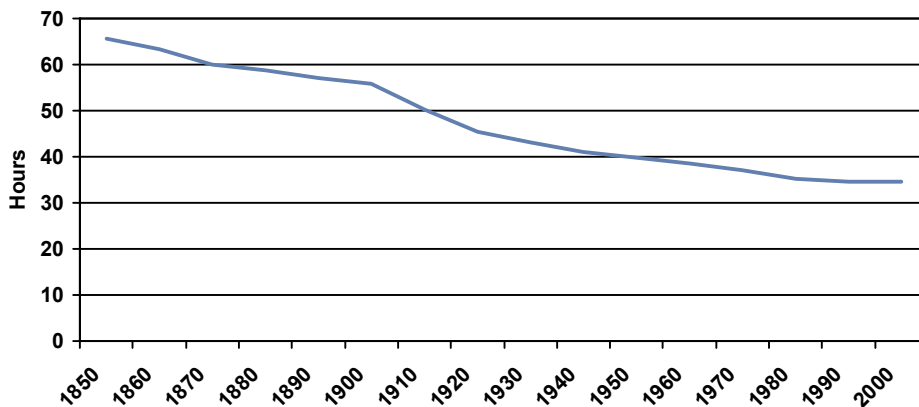
1636	The first pension law in the colonies is enacted by Plymouth, providing pensions to colonists disabled in the colony's defense.
1789	The first federal pension legislation is passed, providing pensions to disabled veterans of the Revolutionary War.
1797	The first profit-sharing plan in the United States is set up by Albert Gallatin at his glassworks in New Geneva, Pennsylvania.
1798	Congress establishes the United States Marine Hospital Service, which is financed by compulsory deductions from seamen's wages.
1818	The Service Pension Law establishes pensions for all veterans of the Revolutionary War and the War of 1812. Prior to this legislation, pensions were granted only to disabled veterans.
1847	The Massachusetts Health Insurance Company of Boston is organized as the first American company authorized to issue sickness insurance.
1857	New York City establishes a pension fund for its policeman. It is the first pension plan covering state and local government employees.
1862	The first income tax law is enacted to support Civil War efforts. The Office of the Commissioner of Internal Revenue (now the Internal Revenue Service (IRS)) is established.
1864	The Travelers Insurance Company offers accident insurance.
1875	The first private pension plan in the United States is started by the American Express Company. Benefits are equal to 50% of average pay earned in the final ten years, but no more than \$500 annually.
1877	The Granite Cutters Union establishes the first national sick benefit plan.



### Trends Over Time: Average Weekly Hours

The 40-hour workweek has not always been a part of the American workplace. In 1840, President Martin Van Buren issued an executive order that established the ten-hour workday for workers on government contracts. At this time, industrial workers typically worked 12- or 13-hour days and six-day weeks. Shortening and standardizing the length of the workweek was a key labor market issue during the first four decades of the 20<sup>th</sup> century. Efforts to do so culminated in the passage of the Federal Labor Standards Act (FLSA) in 1938. The FLSA allowed for a maximum workweek of 44 hours, which was later dropped to 40 hours. Employers can still demand longer workweeks; however, hours worked beyond the legal maximum require time-and-a-half pay.

**Average Weekly Hours for American Non-Agricultural Workers, 1850–2000**



Source: J. Frederic Dewhurst et al., *America's Needs and Resources* (New York: Twentieth Century Fund, 1955) p. 1073; 1950–2000 statistics from "Report on the American Workforce," U.S. Department of Labor, 2001.

## Turn of the Century

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The 1900s brought a distinct pickup in activity. Insurers began developing new products, and employers—both public and private—began installing new plans to meet the needs of their employees. In addition, the government began creating public health and retirement programs and incentives to spur the growth of benefits. Notable developments include the first group health insurance policy, the introduction of workers' compensation, and the first minimum wage law.

### 1900–1924

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1905	The Granite Cutters Union is the first labor organization to set up a pension plan for its members.
1908	The Federal Employer's Liability Act was the first workmen's compensation law passed in the U.S. It covered certain federal employees engaged in hazardous occupational duties.
1910	Montgomery Ward develops concepts leading to group life and accident insurance. It adopts the first group accident and sickness policy for employees issued by London Guarantee and Accident Company. The policy is often regarded as the first group health insurance policy in the U.S.
1911	The first group life insurance policy is issued by Equitable Life Assurance Society to the Pantasote Leather Company of Passaic, New Jersey.
1911	Wisconsin is the first state to enact a workmen's compensation law that is held constitutional. Under the law, known as the "Great Trade-Off," employers agree to provide medical and indemnity benefits and injured employees agree to give up their rights to sue employers.
1912	Massachusetts passes the first minimum wage law, which applies to women and children.
1912	In his campaign for the presidency on the Progressive Party ticket, Theodore Roosevelt endorses health insurance. Roosevelt (who served as a Republican President between 1901 and 1909) loses the election.
1913	The Department of Labor (DOL) is established as an independent executive department.
1917	Life insurance for servicemen of World War I is offered by the government under the War Risk Act; since 1919, such insurance has been known as U.S. Government Life Insurance.
1917	The first group accidental death and dismemberment insurance policy is written.
1920	By 1920, workmen's compensation laws are adopted in 42 states (plus Alaska and Hawaii, then territories).
1920	The Civil Service Retirement Act provides coverage for most federal civilian employees.

1921

Federal tax exemption is granted to profit-sharing and stock bonus plans.

The first group annuity contract is issued to William E. Rudge, Inc. by the Metropolitan Life Insurance Company.

### Trends Over Time: Changes in the American Workforce

The American workforce underwent many remarkable changes during the 20<sup>th</sup> century. The size of the workforce at the end of the century was almost six times as large as in the beginning of the century. The composition of the labor force and compensation of workers shifted as well.

#### Comparison of the American Workforce, 1900 vs. 1999

	1900	1999
Size	24 million (age 10 and over)	139 million (age 16 and over)
Composition of labor force by industry	<ul style="list-style-type: none"> <li>■ Farming: 38%</li> <li>■ Goods-producing industries: 31%</li> <li>■ Service industries: 31%</li> </ul>	<ul style="list-style-type: none"> <li>■ Farming: less than 3%</li> <li>■ Goods-producing industries: 19%</li> <li>■ Service industries: 78%</li> </ul>
Per capita income (1999 dollars)	\$4,200	\$33,700
Average hourly pay of manufacturing production workers (1999 dollars)	\$3.80*	\$13.90
*Average hourly pay was first measured in 1909.		

Source: "Report on the American Workforce," U.S. Department of Labor, 2001.

# The Great Depression & World War II

The stock market crash of 1929 marked the beginning of a long and severe period of economic decline in the U.S. The Great Depression had widespread and lasting effects, including changes in how American workers were compensated and a greater emphasis on unemployment insurance and “old age” benefits. The federal government established wage standards and became more involved in labor-management relations. Social Security, the first legally-required benefit, became law in 1935.

During World War II, employee benefits underwent a growth spurt due to higher income taxes and salary controls. To attract employees, employers began providing fringe benefits, such as pensions, medical insurance, and paid holidays and vacations. In a decision later upheld by the U.S. Supreme Court, the National Labor Relations Board ruled that fringe benefits were subject to collective bargaining. Unions began to ask for more, and activity in employee benefits took off.

## 1925–1949

1926	Federal tax exemption is extended to pension plans.
	The Railway Labor Act accepts the basic premise of collective bargaining.
1928	The Revenue Act encourages the financial and actuarial soundness of pension plans by permitting tax deduction on funding of past service liabilities.
1929	Baylor University Hospital introduces a formalized group hospitalization plan, the predecessor of the Blue Cross movement. Other prepaid group health plans begin to become popular among smaller employers.
	The stock market crash of October 24–29 sets off a long period of economic decline.
1930s	President Roosevelt considers national health insurance as part of his New Deal reforms, but removes it from his final proposal for Social Security legislation. Efforts to advance the issue later in his presidency fail.
1932	The first unemployment insurance law is passed in Wisconsin.
1934	The Securities Exchange Act creates the Securities and Exchange Commission (SEC), which rules that shareholder proposals on executive pay and other governance issues should be included in proxy statements and voted on at annual meetings.
1935	The Wagner Act ensures the right of workers to organize and bargain collectively and establishes the National Labor Relations Board.
	President Roosevelt signs the Social Security Act (part of his second round of New Deal reforms) providing benefits to retired workers age 65 or over, with payments commencing in 1940.
	The Railroad Retirement System is established to create a unified system for the industry.

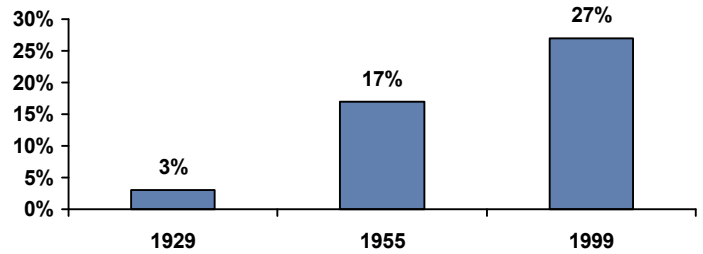
	At least half of all state governments are offering pension plans.
1936	The Walsh-Healey Public Contracts Act provides that minimum wage standards be required on all government contracts.
1938	An amendment to the Revenue Act requires that an employer's retirement plan contributions be irrevocable.
	The Fair Labor Standards Act is passed, establishing a single uniform statutory minimum wage and requiring overtime pay for work beyond the basic workweek.
	Private insurers introduce group surgical expense benefit plans.
1939	A statewide, non-profit, prepaid medical society-sponsored plan—predecessor of Blue Shield—is offered by California Physicians Services.
	Compensation for injuries, sickness, or both received under workers' compensation, accident, or health insurance is exempted from income taxes.
1942	During the war years, employee benefits undergo a growth spurt due to higher income taxes and salary controls.
	The Stabilization Act limits the wage increases employers can grant and permits the adoption of employee insurance plans.
	The Revenue Act Amendment prohibits retirement plans from discrimination in favor of higher-paid employees. At the same time, it extends capital gains tax treatment to lump-sum distributions.
	Building on earlier group health plans offered to employees in California and Washington, Henry Kaiser establishes a health plan for his shipyard and steel mill workers. The plan is later opened to the public. It becomes the forerunner of today's health maintenance organizations (HMOs).
	Rhode Island becomes the first state to enact a temporary disability insurance law, which protects workers against wage loss resulting from a non-work related illness or injury.
Mid-1940s	Eastman Kodak and DuPont establish alcoholism programs, the forerunners of today's employee assistance programs.
1946	Blue Shield Medical Care Plans, Inc. is organized.
	The Veterans Administration begins mailing prescription drugs at no charge to eligible veterans, creating the first mail-order pharmacy.
	St. Louis Labor Health Institute develops the first dental care program.
1947	The Taft-Hartley Act is passed, permitting joint labor/management welfare and pension funds. The Act reduces the rights of workers to organize labor unions, and state "right-to-work" laws begin to appear.

1948	As a result of a grievance filed by the United Steelworkers against Inland Steel, the National Labor Relations Board rules that pensions and other employee fringe benefits are subject to bargaining. The decision is upheld by the Supreme Court in 1949.
	A cost-of-living allowance and an annual improvement factor are introduced in the General Motors/UAW contract.
1949	The first major medical group insurance contract is issued by Liberty Mutual Insurance Company to the Elfun Society, management personnel of General Electric.
	A steel industry pension is negotiated after a recommendation by a presidential fact-finding board and a strike.
	Almost 50 years before the term "outsourcing" comes into vogue, ADP acquires its first payroll processing client.
Late 1940s	President Truman, the first President to publicly support national health insurance, proposes a single insurance system that would cover all Americans, with public subsidies to pay for the poor. Opponents erode public support for the program.

**Trends Over Time: Employee Compensation & Benefits**

During the 20<sup>th</sup> century, the composition of employee compensation changed dramatically. In the early part of the century, employees were typically paid with wages only. Voluntarily provided benefits (such as life insurance and pension plans) and legally required benefits (such as Social Security) began appearing in the 1920s and 1930s. Employee benefits activity escalated in the 1940s and 1950s as more employers began offering health and welfare benefits. By the end of the century, employee benefits composed 27% of employers' compensation costs.

**Employer Costs for Employee Benefits  
(% of Compensation)**



Source: "Report on the American Workforce," U.S. Department of Labor, 2001.

**Significant Social Security Developments**

- 1937 Social Security contributions begin. Workers and employees contribute 1% of pay up to \$3,000 annually.
- 1939 Benefits for dependents and survivors added.
- 1940 Retired workers start receiving primary Social Security benefits.  
222,488 Social Security beneficiaries
- 1943 First tax guidelines issued on the integration of retirement plans with Social Security benefits.

## Growth of Employee Benefits

Significant developments in employee benefits and compensation occurred during the booming economic times of the 1950s and 1960s. An amendment to the Internal Revenue Code created the restricted stock option. Supplemental unemployment benefits, phantom stock plans, stock appreciation rights, stock ownership plans, dental insurance, and numerous other benefits made their appearance. Compensation and benefits programs experienced continued growth and became more expensive for employers.

Federal legislation continued to shape the American workplace. Several laws addressing age, sex, and racial discrimination were enacted. In 1974, the Employee Retirement Income Security Act (ERISA) overhauled the rules governing employee benefits and created a U.S. government-run entity to insure private-sector pension plans.

Important health care-related events during this time included the creation of Medicare and the advent of managed care. Federal initiatives during the early 1970s sparked growth in the health maintenance organization (HMO) industry.

### 1950–1974

1950	In the 1950s, the first health insurance plans were called base/major medical plans. Employers began offering these plans to help employees with hospital expenses. Original Medicare is based on this concept.
	The restricted stock option is created by an amendment to the Revenue Act.
1951	The Wage Stabilization Board temporarily freezes wages and prices.
1952	The College Retirement Equities Fund is established as the first variable annuity fund.
1954	The Federal Employees Group Life Insurance Act provides life insurance and accidental death and dismemberment insurance to civilian officers and employees of the U.S. government through private insurance companies.
	The Longshoreman's and Warehouseman's Union obtains dental benefits as part of its contract.
1955	Ford and the UAW establish supplemental unemployment benefits.
1956	California Vision Service and other optometrists establish the first prepaid vision care plans.
	Phantom stock plans are popularized by a nonqualified stock-oriented deferred bonus plan adopted by Koppers Company.
	To prevent a takeover, a leveraged employee stock ownership plan (LESOP) is used to purchase Peninsula Newspapers of Palo Alto from its founder.

1957	The first senior citizen hospital-surgical policy is issued on a group basis in Iowa by the Continental Casualty Company.
	Occidental Life Insurance Company underwrites the first indemnity-driven vision plan.
1958	The Welfare and Pension Plans Disclosure Act requires that provisions, assets, and liabilities of pension and welfare plans be made publicly available through filings with the DOL.
	Legislation is enacted to establish the current rules for tax-sheltered annuities; however, the Internal Revenue Code had allowed them since 1942.
1959	The first comprehensive group dental insurance plan is written for Dentists' Supply Company of New York by the Continental Casualty Company.
	The first group policies covering nursing home care are offered.
	AARP and the Retired Teachers Association form a nonprofit mail-service pharmacy for their membership.
1960	In the 1960s, comprehensive major medical plans begin to replace more expensive base/major medical plans.
	The beginning of rapid growth in long-term disability plans.
1962	Basic steel companies negotiate savings and vacation plans; followed later in the year by extended vacations in the can industry.
	A long-range sharing plan is introduced in the Kaiser Steel/United Steel Workers negotiations. This plan measures productivity rather than profits, and shares gains among employees and the company.
	The Self-Employed Individuals' Tax Retirement Act extends some of the advantages available in corporate retirement funds to the self-employed.
	The Internal Revenue Code is amended to allow pension plans to provide medical benefits to retired employees and their dependents.
	Civil service pensions are tied to cost-of-living increases.
1963	The Equal Pay Act protects men and women who do substantially equal work from sex-based wage discrimination.
	For-profit companies begin operating mail-order pharmacies, marketing them to corporate, union, and government employers.
	The Studebaker Corporation closes its automotive manufacturing plant and terminates its underfunded pension plan, leaving many of its workers with little to no retirement savings. This event is significant in the movement toward comprehensive federal regulation of private pension plans.
1964	Settlement in the auto industry introduces supplemental early retirement benefits and survivors' income benefits, placing emphasis on family protection.
	Qualified stock options are introduced in the federal tax law.

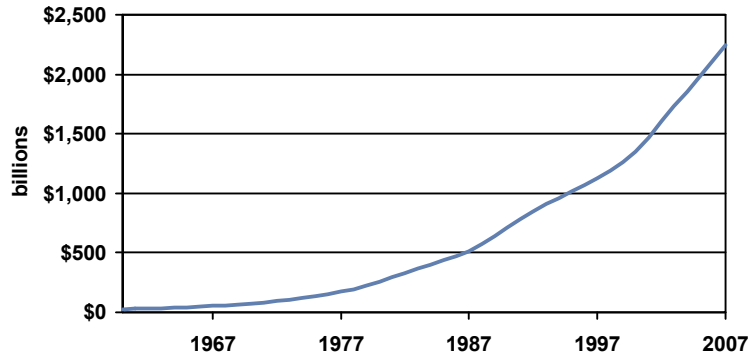
	The Civil Rights Act outlaws racial segregation in schools, public places, and employment. The law creates the Equal Employment Opportunity Commission (EEOC).
1965	In the mid-1960s, the trend toward managed care begins by introducing elements of “managing” care into indemnity plans.
	The Presidential Committee on Corporate Pensions issued a report with specific recommendations for improvements in the basic soundness and equitable character of pension plans.
	The concept of flexible or “cafeteria” compensation first appears.
	In the most significant health reform of the century, President Johnson signs amendments to the Social Security Act into law, creating Medicare and Medicaid.
1966	Accounting Principles Board (APB) Opinion No. 8 requires that pension expenses be reported on a consistent basis from year to year and that certain disclosures be made in financial statements.
	Ford/UAW negotiations extend supplemental unemployment benefits to 50 weeks—essentially a guaranteed annual wage. The contract also provides a prescription drug plan, the first such plan on a nationally uniform basis. Limitations are placed on cost-of-living allowances.
1967	The Age Discrimination in Employment Act (ADEA) becomes effective, protecting employees between ages 40 and 65.
	Firestone Tire and Rubber begins to self-fund health benefits.
1968	The Tax Reform Act modifies the tax treatment of lump-sum distributions from qualified pension and profit-sharing plans. Seven-year averaging replaces capital gain treatment of future employer contributions. The Act also changes the method of taxing capital gains and provides a new limit on taxation of earned income. The 15% restriction imposed on voluntary employees’ beneficiary associations (VEBAs) in 1942 is removed, opening the way to growth.
	In the 1970s, HMOs are introduced. These plans represent a complete shift from indemnity to managed care.
1969	Although there is widespread support for health care reform in the 1970s, it loses momentum during the Watergate scandal. High inflation, an economic recession, and rising health care costs further stall efforts to expand coverage.
	The General Motors/UAW contract further liberalizes early retirement benefits and restores unlimited cost-of-living wage adjustments.
	President Nixon freezes wages and salaries.
1970	General Laborers Local 229 and the Shreveport, LA Bar Association establish a formal prepaid legal plan in the modern sense. However, legal benefits can be traced back to insurance contracts written in 1907.
	Akzona, Amstar, J.C. Penney, and CBS receive shareholder approval for performance share plans.
	H. J. Heinz adopts the first performance unit plan.

	Studebaker-Worthington, Warner-Lambert, and others pioneer the idea of stock appreciation rights as an executive compensation tool.
1972	The first variable life insurance policy is written by Aetna Variable Annuity Life Insurance Company as part of a corporate pension program at the Arkansas Neurological Clinic in Little Rock.
	APB 25 on accounting for stock issued to employees is published. It permits companies to award stock options to employees without an earnings charge.
1973	The Health Maintenance Organization Act is enacted, assisting in the expansion and establishment of HMOs.
	Hewlett-Packard expands flextime, a concept it pioneered in the 1950s, throughout its U.S. operations.
1974	Hawaii enacts the Prepaid Health Care Act, which requires nearly all employers in the state to provide health insurance to certain employees. The Act is the only employer health mandate exempted by ERISA; however, no major changes can be made to the law as it was passed.
	The Employee Retirement Income Security Act (ERISA), the most sweeping overhaul of employee benefits rules in history, is signed by President Ford on September 2. The new rules, both tax and nontax in scope, affect virtually every employee benefit plan, and are administered by the Pension and Welfare Benefits Program (later becomes the Employee Benefit Security Administration (EBSA)). The law creates the Pension Benefit Guaranty Corporation (PBGC), which protects the pension benefits of American employees and retirees when their private-sector pension plans are terminated. Individual retirement accounts (IRAs) are introduced.
	The first plan permitting the purchase of book value shares by employees of a large publicly-held company is adopted by Corning Glass Works; the idea, however, can be traced back to DuPont and Carnegie Steel in the early 1900s.
	Education Testing Service and TRW Systems Group install the first flexible compensation plans.

## Trends Over Time: National Health Expenditures

The national health expenditures are the official estimates of total health care spending in the United States. Dating back to 1960, the statistics measure annual U.S. expenditures for health care goods and services, public health activities, program administration, the net cost of private insurance, and research and other investment related to health care. Since 1970, health care spending has risen about 2.4 percentage points faster than gross domestic product (GDP).

**National Health Expenditures, 1960–2007**



Source: National Health Expenditures, Centers for Medicare and Medicaid Services.

## Significant Social Security & Medicare Developments

1950 “New Start” amendments liberalize eligibility for Social Security benefits and include farm, domestic, and self-employed workers other than farmers and professionals.

1954 Social Security coverage extended to all self-employed workers except doctors, dentists, and other medical groups, and lawyers.

1956 Women eligible for reduced retirement benefits at age 62.  
Disability benefits added for disabled workers age 50 and over.

1960 Social Security disability benefits extended to all age groups.

1961 All individuals eligible for reduced retirement benefits at age 62.

1965 Social Security coverage extended to interns and self-employed doctors.  
Medicare created.

1967 Additional benefits made available under Medicare.

1971 Significant changes made in rules governing the integration of retirement plans with Social Security.

1972 Automatic annual cost-of-living adjustments (COLAs) in benefits and the wage base provided beginning in 1975.

Medicare extended to Social Security disability benefit recipients under age 65.

**Social Security & Medicare Statistics**

	Social Security	Medicare
1950	3.5 million beneficiaries	
1960	14.8 million beneficiaries	
1965		<ul style="list-style-type: none"> <li>■ Part A deductible: \$40/year</li> <li>■ Part B premium: \$3/month</li> </ul>
1970	26.2 million beneficiaries	<ul style="list-style-type: none"> <li>■ 20.4 million beneficiaries</li> <li>■ Part A deductible: \$52/year</li> <li>■ Part B premium: \$4/month</li> </ul>

## ERISA and Beyond

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The enactment of ERISA transformed employee benefits, setting federal standards for private-sector pension and welfare benefit plans. The changes imposed by ERISA and subsequent laws have established protections for employees, as well as corresponding responsibilities for employers.

As a result of globalization, competition, and the need to reduce labor costs, employers began to scale back employee benefits programs. Rising health care costs lead to increased cost sharing—in which employees became responsible for a larger share of the health care benefits through increased premiums, copayments, and deductibles. Changes also took place in the retirement arena, with employers shifting from defined benefit plans to defined contributions plans. Overall, employees were given more responsibility—in both their decision making and financial obligations—for their own health care expenses and retirement savings.

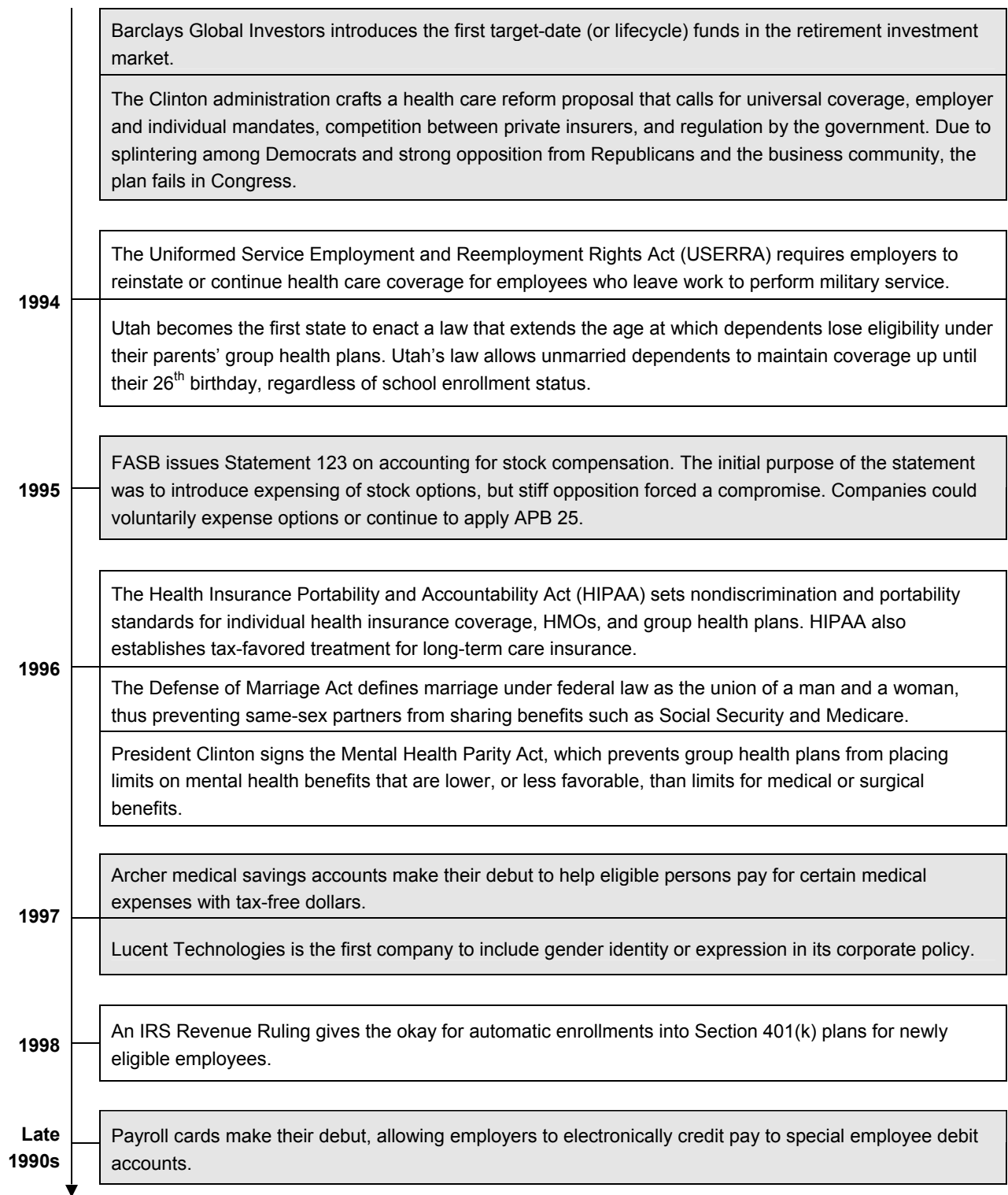
On the compensation front, executive compensation soared during the booming 1990s. Companies handed out stock option grants in record amounts. Bonuses were generous and the number of new millionaires increased dramatically.

### 1975–1999

<b>1975</b>	The Tax Reduction Act creates the tax credit employee stock ownership plan (TRASOP).
<b>1976</b>	Restricted stock plans make a comeback and qualified plans fall from favor because of the Tax Reform Act.
	The first chapter in concessionary (give-back) collective bargaining is written at Eastern Airlines.
<b>1978</b>	President Carter introduces a voluntary federal program of wage and price constraints.
	The Revenue Act adds Sections 125 and 401(k) to the Internal Revenue Code to eliminate taxation when a nontaxable benefit is elected in a choice plan. Section 125 “cafeteria plans” allow choice between nontaxable benefits, taxable benefits, and cash. Section 125 also introduces flexible spending accounts (FSAs). Section 401(k) plans allow cash or deferred profit-sharing plans.
	The Pregnancy Discrimination Act prohibits employers from treating pregnancy-related disabilities differently than other disabilities.
	The ADEA is amended to prohibit differences in pay or benefits for most employees from age 40 to age 70 with the exception of justified (age-based) differences in treatment by bona fide employee benefits plans.
	Fee-for-service doctors in an independent practice in Denver form one of the first physician preferred provider organizations (PPOs).
<b>1980</b>	The 1980s bring another alternative to HMOS, the exclusive provider organization (EPO) plan.
	The Multiemployer Pension Plans Amendments Act tightens multiemployer plan requirements.

	Benefits consultant Ted Benna discovers a loophole in the Internal Revenue Code and uses it to create one of the first Section 401(k) plans.
1981	The Economic Recovery Tax Act (ERTA) expands IRA availability, adds dependent care assistance programs to the Internal Revenue Code, and creates the incentive stock option (ISO).
	Hughes Aircraft institutes a two-tier wage plan at its missile factory in Tucson.
	Raychem receives shareholder approval for the first ISO.
1982	The Tax Equity and Fiscal Responsibility Act (TEFRA) amends ERISA by reducing retirement benefit and contribution limits and makes other rules for group life insurance, medical plans, and ISOs.
	Installation of Section 401(k) salary reduction plans surges, with Honeywell, FMC, and Johnson & Johnson among the early sponsors.
	The <i>Village Voice</i> newspaper becomes the first private business to offer health benefits to the unmarried domestic partners of employees.
1984	The Deficit Reduction Act is signed into law to increase federal revenue and help reduce the deficit. The Act affects VEBAs, flexible compensation plans, Section 401(k) plans, and other types of employee benefit plans.
	The Retirement Equity Act (REA) changes the age requirements for purposes of enrollment and vesting in pension plans, permits certain breaks in service without loss of pension credits, and broadens the conditions under which spouses receive retirement benefits.
	IRS guidance introduces the “use it or lose it” rule, which requires that FSA funds must be used for expenses incurred during the plan year and that all unused funds are forfeited.
1985	The Financial Accounting Standards Board (FASB) issues Statements 87 and 88, which standardize the accounting for, and disclosure of, pension plan information for single-employer pension plans.
	California-based BankAmerica establishes the first cash balance pension plan.
	The Consolidated Omnibus Budget Reconciliation Act (COBRA) mandates a new termination policy for defined benefit pension plans; increases annual per-participant PBGC premiums for single-employer plans; and provides for continuation of group health coverage to certain beneficiaries, terminated employees, and employees with reduced hours.
1986	The Tax Reform Act makes dramatic changes in employee benefits intended to produce more comparable employee benefit coverage between high- and low-paid employees through tighter nondiscrimination rules.
	President Reagan signs the Federal Employees’ Retirement System Act establishing a new retirement system coordinated with Social Security for federal employees hired after 1983.
	Amendments to the ADEA extend and expand job protection and employee benefit security for older workers. Mandatory retirement at any age is eliminated, and accrual rules for retirement plans are changed.
	Under the Immigration Reform and Control Act, employers that knowingly hire illegal aliens are subject to sanctions and fines.

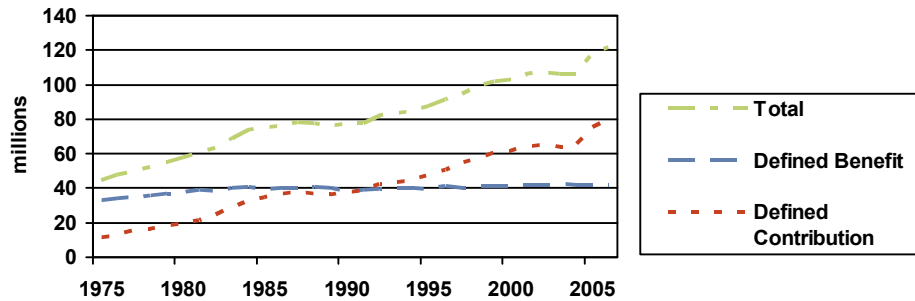
1987	The first employer-sponsored, group long-term care insurance program is offered to retired employees and spouses of the state of Alaska.
	IBM partners with Work/Family Directions to develop the first national corporate elder care program.
	The Omnibus Budget Reconciliation Act changes the funding rules for under- and overfunded pension plans and increases PBGC premiums.
	On "Black Monday," the stock market crashes, experiencing its largest one-day percentage decline.
1988	Norwest Corporation creates the first compensation plan with reload stock options.
1990	Point-of-service (POS) plans are introduced in the 1990s as a compromise between managed care and indemnity plans.
	The Americans With Disabilities Act (ADA) prohibits most employers from discriminating against qualified individuals with disabilities in job application procedures, hiring, firing, advancement, compensation, job training, and other terms and conditions of employment.
	The Older Workers Benefit Protection Act amends the ADEA to prohibit employers from denying benefits to older workers. Employers may reduce benefits based on age but only if the cost of the reduced benefits is the same as the cost of benefits for younger workers.
	FASB issues Statement 106 on accounting for postretirement benefits other than pensions.
1991	Starbucks becomes the first privately held U.S. company to offer a stock option program to all eligible full-time and part-time employees.
	Lotus Development Corporation becomes the first publicly held corporation to extend health insurance coverage to the domestic partners of its employees.
1992	A 20% mandatory withholding tax is imposed on lump-sum 401(k) distributions that are not rolled over into another retirement plan.
	AT&T formalizes its corporate telework program, which goes on to become one of the largest and most successful programs in the U.S.
	The SEC adopts extensive revisions to rules governing the disclosure of executive compensation in proxy statements and other filings.
1993	The Family and Medical Leave Act (FMLA) entitles eligible employees to take up to 12 weeks of unpaid, job-protected leave in a 12-month period for certain family and medical reasons.
	The Revenue Reconciliation Act denies publicly held corporations a deduction for compensation in excess of \$1 million per year to a covered person unless the compensation is awarded pursuant to a performance-based plan.



## Trends Over Time: Pension Plan Participation & Contributions

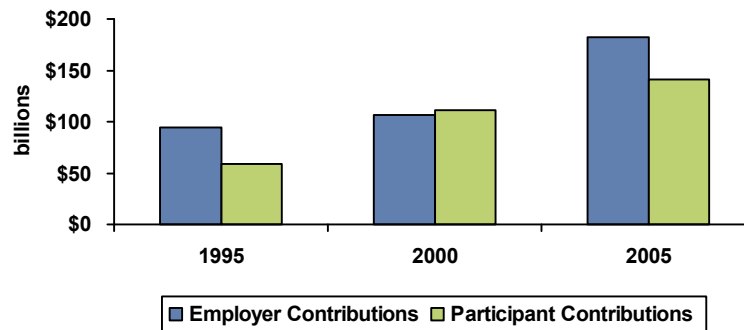
Since the enactment of ERISA, the private pension system has shifted from defined benefit plans toward Section 401(k)-type defined contribution plans. At the same time, the financing of benefits has shifted from employers to participants. In 1999, total participant contributions exceeded total employer contributions for the first time.

**Number of Participants in Pension Plans, 1975–2006\***



\*Note: Beginning in 2005, the number of participants is no longer adjusted. The term “participants” refers to total participants.

**Total Contributions to Pension Plans (Defined Contribution & Defined Benefit)**



Sources: Form 5500 filings with the U.S. Department of Labor

## Significant Social Security & Medicare Developments

1977 Benefit formula “decoupled,” beginning in 1979.

Significant increases in both the tax rate and wage base adopted.

1983 Gradual increase in minimum retirement age to 67 (66 for some), starting in 2000.

COLAs delayed.

Federal employees hired after 1983 brought into the system.

Diagnosis-related group concept for hospital reimbursement under Medicare introduced.

1993 Income taxes raised on Social Security benefits for better-off retirees.

1997 Cap on income subject to the Medicare hospital insurance tax eliminated.

1999 Medicare Part C benefits, known as Medicare+Choice, first offered to beneficiaries.

**Social Security & Medicare Statistics**

	Social Security	Medicare
1980	35.6 million beneficiaries	<ul style="list-style-type: none"> <li>■ 28.4 million beneficiaries</li> <li>■ Part A deductible: \$180/year</li> <li>■ Part B premium: \$8.70/month</li> </ul>
1990	39.8 million beneficiaries	<ul style="list-style-type: none"> <li>■ 34.3 million beneficiaries</li> <li>■ Part A deductible: \$592/year</li> <li>■ Part B premium: \$28.60/month</li> </ul>

## The New Millenium

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As the 21<sup>st</sup> century dawned, corporate scandals filled the headlines—executives falsified financial records to mollify shareholders and preserve the value of their stock options. Outrage dictated new rules and corporate governance gained favor. Congress, the Securities and Exchange Commission, the New York Stock Exchange (NYSE), and the National Association of Securities Dealers Automated Quotations (NASDAQ) all responded with increased diligence. Shareholders became more vigilant. As a result of the changing landscape, the Financial Accounting Standards Board modified the accounting treatment of stock options.

Consumer-driven health care took off in the early 2000s. Many employers began offering high-deductible health policies with tax-advantaged health reimbursement or savings accounts. This strategy was designed to make employees more aware of and responsible for the cost consequences of their health care decisions.

Once considered to be supplementary to Social Security and defined benefit plans, defined contribution plans have become the primary retirement savings vehicle for many workers. Many employers adopted automatic enrollment features in their Section 401(k) plans. Other automatic features, such as the use of target-date funds and contribution acceleration, also became popular among employers.

With the first decade of the 21<sup>st</sup> century coming to a close, many proposals for reforms in the health care, retirement, and compensation arenas have been under the microscope. Issues include rising health care costs, worries about inadequate retirement savings, and excessive compensation packages.

### 2000–2009

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2000	HealthCare introduces the first consumer-driven health plan.
2001	The Economic Growth and Tax Relief Reconciliation Act makes many changes in Section 401(k) plans, including higher annual deferral limits and faster vesting of employer matching contributions. It also opens the door to Roth 401(k) accounts.
	The Enron bankruptcy triggered reconsideration, by both the government and employers, of the use of employer stock in retirement plans.
2002	Health reimbursement arrangements (HRAs) are introduced.
	Corporate governance legislation forbids personal loans to directors and executive officers. The legislation also places disclosure requirements on Section 401(k) plan sponsors prior to imposing a trading blackout period, and prohibits insider trades by corporate executives during trading blackout periods.
	California becomes the first state to enact a paid family leave program.
2003	The first ever federal privacy standards to protect patients' medical records and other health information take effect.
	The Medicare Prescription Drug, Improvement, and Modernization Act is signed into law. The Act makes some far-reaching changes, including the creation of health savings accounts (HSAs).

	FASB revises disclosure rules for employer-sponsored pensions and other postretirement benefit plans.
	The IRS releases final regulations interpreting the golden parachute tax rules.
	The SEC approves new NYSE and NASDAQ rules requiring shareholder approval of equity compensation plans, including stock option plans. Shareholder approval also is required for repricings and material plan changes.
	Massachusetts becomes the first state to legalize same-sex marriage when its state Supreme Court rules that the Massachusetts constitution guarantees equal marriage rights for same-sex couples.
	The EEOC approves a regulation allowing employers to coordinate retiree health benefits with eligibility for Medicare or a comparable state health benefits program. The regulation reverses a 2000 court decision that held it is a violation of the ADEA to provide lesser retiree medical benefits to Medicare-eligible retirees compared to pre-65 retirees.
2004	The American Jobs Creation Act changes the rules governing nonqualified compensation plans by imposing distribution and funding restrictions.
	The Pension Funding Equity Act provides pension plan funding relief by temporarily replacing the 30-year Treasury rate for some pension plan calculations.
	The SEC releases new Form 8-K disclosure rules that affect employment and other compensatory agreements with executive officers.
	FASB mandates that, beginning in 2005, companies have to show the fair value of their stock option awards on their income statements.
	Juniper Networks makes its CEO's bonus dependent on the company's "entry into new businesses by means of acquisitions." Compensation experts say this effort to encourage growth is a first; no one can recall a similar bonus provision.
	In a first-of-its-kind move, 12 Nortel Networks executives will repay bonuses and restricted stock payouts granted and paid based on manipulated financial statements.
2005	IRS rules open the door for employers to offer Roth 401(k) accounts.
	The Bankruptcy Abuse Prevention and Consumer Protection Act adds further protection for IRAs and employee retirement plan assets.
	In an effort to boost the use of FSAs, the IRS eases the "use it or lose it" rule. Plan sponsors may design plans that allow participants a "grace period"— the first two-and-a-half months of the next plan year—during which they can apply unused balances to pay for health care and dependent care expenses they incur.
	A stock option backdating scandal rocks the world of executive compensation.
2006	Massachusetts Governor Mitt Romney signs landmark health care legislation that requires all state residents to obtain health insurance.
	The San Francisco Board of Supervisors approves an ordinance to create a program to make health care services available to all uninsured city residents. The program requires some employers to spend a certain amount on health care expenses for covered employees per quarter, or contribute to a city fund.

	<p>Congress approves and President Bush signs groundbreaking pension reform legislation. The Pension Protection Act (PPA) requires employers with underfunded pension plans to pay additional PBGC premiums, requires employers to more accurately measure pension obligations, and raises the cap on employer contributions. The new law also addresses hybrid plans and removes barriers to automatic enrollment in Section 401(k) plans.</p>
	<p>FASB makes changes to the financial reporting requirements for postretirement benefit plans.</p>
	<p>A new law makes HSAs more flexible. Enhancements include the ability to contribute funds to HSAs via rollovers from health FSAs and HRAs and one-time transfers from IRAs.</p>
2007	<p>The IRS issues final regulations covering the application of Section 409A to nonqualified deferred compensation plans.</p>
	<p>The UAW reaches an agreement with the “Big Three” automakers—Chrysler, Ford, and General Motors—to create a VEBA trust for retiree health care benefits.</p>
	<p>DOL rules protect employers with automatic enrollment programs from fiduciary liability if the investments they direct employees’ contributions to do poorly, as long as the investments meet certain requirements.</p>
2008	<p>The first employers begin offering medical tourism options to employees. Hannaford Brothers offers the option to travel to Singapore for knee and hip replacements; Doctors Care covers five procedures at hospitals in Thailand, Singapore, Turkey, Ireland, and Costa Rica.</p>
	<p>President Bush signs legislation that expands the FMLA for military families.</p>
	<p>Aflac is the first publicly held American company to give shareholders a “say on pay”—a non-binding vote on executive compensation.</p>
	<p>FASB proposes amending Statement 123 to improve employers’ disclosures about postretirement benefit plan assets.</p>
	<p>The Genetic Information Nondiscrimination Act (GINA) prohibits employers from using genetic information to discriminate in health benefits and other terms of employment.</p>
	<p>Gas prices surge over \$4 a gallon. To ease employees’ commuting burdens, employers implement a variety of initiatives, including shortened workweeks and increased telecommuting options.</p>
	<p>Frontier Airlines Holdings Inc. suspends its 401(k) match. Throughout 2008 and 2009, a number of other companies eliminate or reduce their matches to cut costs in the economic downturn.</p>
	<p>HSA guidance is provided, including rules about offering on-site medical care or FSAs/HRAs when offering HSAs.</p>
	<p>Mental health parity legislation is enacted as part of a larger financial bailout package, the Emergency Economic Stabilization Act (EESA). It requires employer group health plans to offer the same coverage for mental disorders as for other medical problems. The bailout legislation also creates executive compensation standards for companies that accept government assistance in the new bailout program.</p>
	<p>A first-of-its-kind municipal ordinance requires some employers in San Francisco to provide employees with commuter benefits that promote public transit or vanpool use.</p>
	<p>The Worker, Retiree, and Employer Recovery Act provides PPA funding relief for single-employer and multiemployer pension plans.</p>

2009

President Obama signs fair pay legislation that expands workers' rights to sue their employers for discriminatory compensation decisions.

The American Recovery and Reinvestment Act (ARRA) is enacted. The massive economic stimulus package includes HIPAA privacy and security provisions and executive compensation standards. It also provides COBRA premium assistance for involuntarily terminated employees and their families.

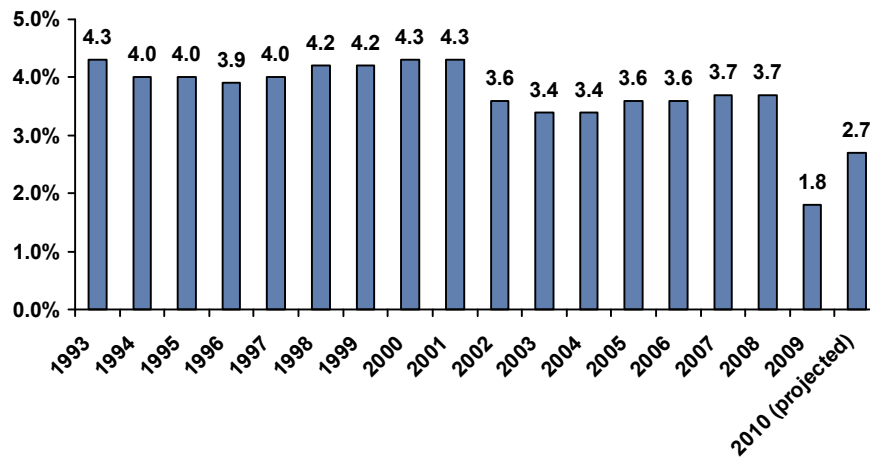
Joining Connecticut and Massachusetts, four other states (Iowa, Maine, New Hampshire, and Vermont) legalize same-sex marriage. Vermont is the first to do so through the legislative process.

Health care reform heats up again, with goals to expand coverage and address rising health care costs. Issues up for discussion include an employer pay-or-play mandate, the tax treatment of health benefits, and a public plan option.

### Trends Over Time: Salary Increases

Hewitt began tracking salary data in 1976. In 2009, survey results indicated that base salary increases were at their lowest point in 33 years, dipping below 3% for the first time.

**U.S. Salary Increases (1993–2010)  
Salaried Exempt Employees**



Source: 2009–2010 U.S. Salary Increase Survey, Hewitt Associates.

### Significant Social Security & Medicare Developments

2000 Rules limiting the earnings of Social Security recipients between the ages of 65 and 69 repealed.

2003 Prescription drug benefit added to Medicare.

Medicare+Choice plans become known as Medicare Advantage plans.

2006 Medicare Part D effective.

2008 First Baby Boomers eligible for Social Security early retirement benefits.

**Social Security & Medicare Statistics**

	Social Security	Medicare
2000	45.4 million beneficiaries	39.7 million beneficiaries Part A deductible—\$776/year Part B premium—\$54.40/month