

# Microhistory of Employee Benefits and Compensation

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## Microhistory of Employee Benefits and Compensation, 1636–2013

This microhistory highlights the major events and legislation that Aon Hewitt believes influenced the growth and quality of employee benefit plans and compensation practices in the United States from 1636 to 2013. (For more detailed information on legislation affecting employee benefits and compensation, see Aon 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.

*This report was compiled by the Legislative Reporting Team. If you have questions or for more information, please contact us [here](#).*

## Early Beginnings

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

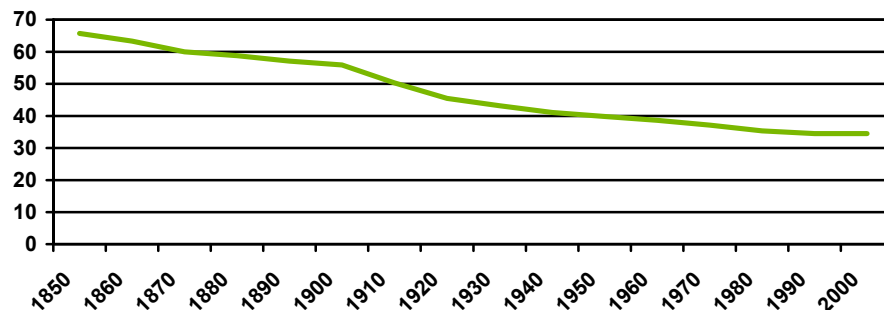
1636	The first pension law in the colonies is enacted by Plymouth, providing pensions to colonists disabled in the colony’s defense.
1789	The first federal pension legislation is passed, providing pensions to disabled veterans of the Revolutionary War.
1797	The first profit sharing plan in the United 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 policemen. 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 10 years, but no more than \$500 annually.

1877	The Granite Cutters Union establishes the first national sick benefit plan.
1879	The first wage payment law is passed in Massachusetts, requiring cities to pay laborers at least once a week.
1880	A prepaid hospital care plan is established for lumberjacks in Northern Minnesota. It is later dropped.
1890	A group insurance policy issued by Travelers Insurance Company provides blanket coverage for Baltimore firemen.
1892	Columbia University is the first private college to adopt a pension plan for professors.
1894	New York City establishes the first pension plan for public school teachers.

### 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 10-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

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 workmen’s compensation (commonly known as “workers’ compensation” today), and the first minimum wage law.

### 1900–1924

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).
	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.



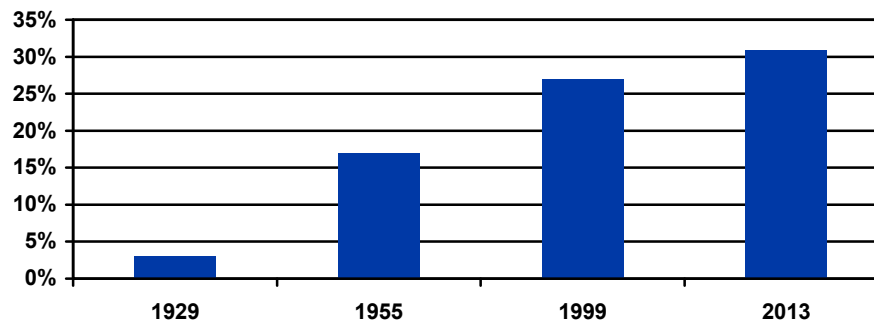
1935	The Wagner Act ensures the right of workers to organize and bargain collectively and establishes the National Labor Relations Board.
	President Roosevelt signs the Social Security Act (part of his second round of New Deal reforms) providing benefits to retired workers age 65 or over, with payments 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 workmen's 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 U.S. 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. By 2013, employee benefits ballooned to 30.9% of employers' compensation costs.

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



Sources: "Report on the American Workforce," U.S. Department of Labor, 2001 and "Employer Costs for Employee Compensation for June 2013," U.S. Bureau of Labor Statistics, 2013

## 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.  
There are 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, 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 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 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-order 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.

	<p>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.</p>
1964	<p>Settlement in the auto industry introduces supplemental early retirement benefits and survivors' income benefits, placing emphasis on family protection.</p>
	<p>Qualified stock options are introduced in the federal tax law.</p>
	<p>The Civil Rights Act outlaws racial segregation in schools, public places, and employment. The law creates the Equal Employment Opportunity Commission (EEOC).</p>
1965	<p>In the mid-1960s, the trend toward managed care begins by introducing elements of "managing" care into indemnity plans.</p>
	<p>The Presidential Committee on Corporate Pensions issued a report with specific recommendations for improvements in the basic soundness and equitable character of pension plans.</p>
	<p>The concept of flexible or "cafeteria" compensation first appears.</p> <p>In the most significant health reform of the century, President Johnson signs amendments to the Social Security Act into law, creating Medicare and Medicaid.</p>
1966	<p>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.</p>
	<p>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.</p>
1967	<p>The Age Discrimination in Employment Act (ADEA) becomes effective, protecting employees between ages 40 and 65.</p>
	<p>Firestone Tire and Rubber begins to self-fund health benefits.</p>
1969	<p>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.</p>

1970	In the 1970s, HMOs are introduced. These plans represent a complete shift from indemnity to managed care.
	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.
1971	President Nixon freezes wages and salaries.
	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.
1972	Studebaker-Worthington, Warner-Lambert, and others pioneer the idea of stock appreciation rights as an executive compensation tool.
	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.
1972	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 Benefits Security Administration). 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.

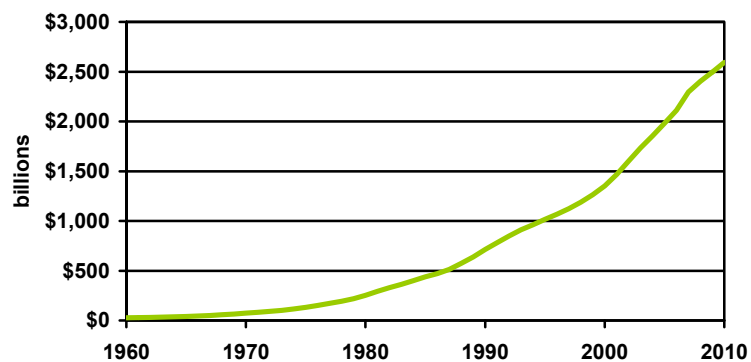
The first plan permitting the purchase of book value shares by employees of a large publicly held company is adopted by Corning Glass Works; the idea, however, can be traced back to DuPont and Carnegie Steel in the early 1900s.

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. In 2009 and 2010, health care spending made up 17.9% of U.S. gross domestic product.

**National Health Expenditures, 1960–2010**



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

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 contribution 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.

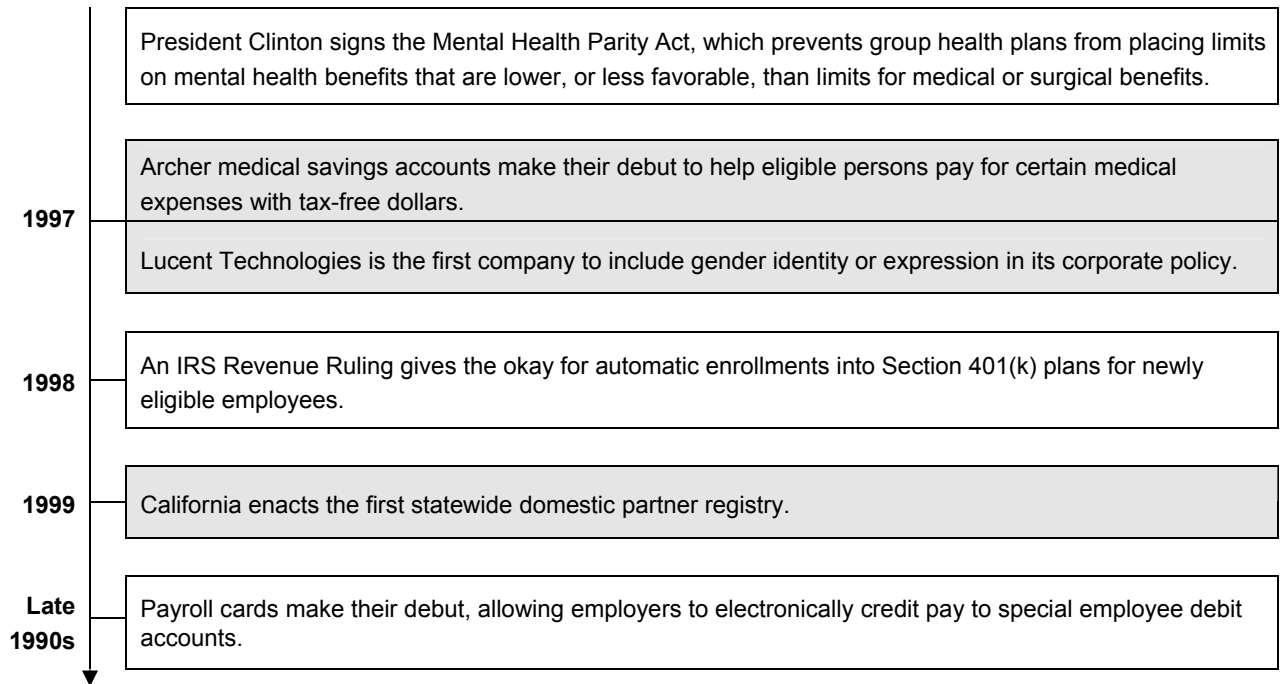
### 1975–1999

1975	The Tax Reduction Act creates the tax credit employee stock ownership plan.
1976	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.
1978	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 and subsequent EEOC guidance prohibit 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 benefit plans. Fee-for-service doctors in an independent practice in Denver form one of the first physician preferred provider organizations.

1980	The 1980s bring another alternative to HMOs, the exclusive provider organization plan.
	The Multiemployer Pension Plan 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 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 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) 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 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 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	Quad/Graphics, a printing company in Milwaukee, opens its first on-site medical clinic for employees. While the earliest on-site clinics date back to the early 20 <sup>th</sup> century in the mining and logging industries, the trend resurfaces in the 1990s and 2000s as employers try to increase employees' productivity and access to health care.
	Starbucks becomes the first privately held U.S. company to offer a stock option program to all eligible full-time and part-time employees.

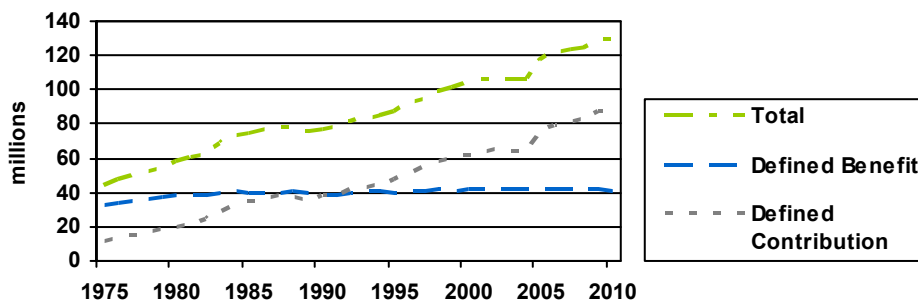
1992	Lotus Development Corporation becomes the first publicly held corporation to extend health insurance coverage to the domestic partners of its employees.
	A 20% mandatory withholding tax is imposed on lump-sum 401(k) distributions that are not rolled over into another retirement plan.
	AT&T formalizes 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.
	Barclays Global Investors introduces the first target-date (or lifecycle) funds in the retirement investment market.
1994	The Clinton Administration crafts a health care reform proposal that calls for universal coverage, employer and individual mandates, competition between private insurers, and regulation by the government. Due to splintering among Democrats and strong opposition from Republicans and the business community, the plan fails in Congress.
	The Uniformed Services Employment and Reemployment Rights Act (USERRA) requires employers to reinstate or continue health care coverage for employees who leave work to perform military service.
1995	Utah becomes the first state to enact a law that extends the age at which dependents lose eligibility under their parents' group health insurance plans. Utah's law allows unmarried dependents to maintain coverage up until their 26 <sup>th</sup> birthday, regardless of school enrollment status.
	FASB issues Statement 123 on accounting for stock compensation. The initial purpose of the statement was to introduce expensing of stock options, but stiff opposition forced a compromise. Companies could voluntarily expense options or continue to apply APB 25.
1996	The Health Insurance Portability and Accountability Act (HIPAA) sets nondiscrimination and portability standards for individual health insurance coverage, HMOs, and group health plans. HIPAA also establishes tax-favored treatment for long-term care insurance.
	The Defense of Marriage Act (DOMA) defines marriage under federal law as the union of a man and a woman, thus preventing same-sex partners from sharing benefits such as Social Security and Medicare.



## Trends Over Time: Pension Plan Participation & Contributions

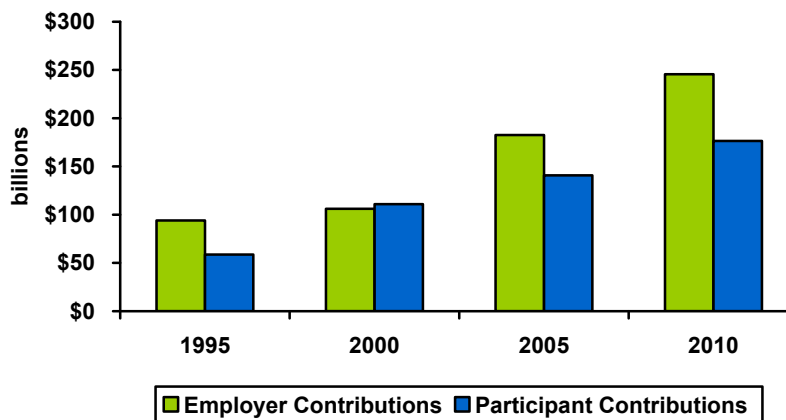
Since the enactment of ERISA, the private pension system has shifted from defined benefit plans toward Section 401(k)-type defined contribution plans. At the same time, the financing of benefits has shifted from employers to participants. In 1999, total participant contributions exceeded total employer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

**Number of Participants in Pension Plans, 1975–2010\***



\*Note: The U.S. Department of Labor’s research reflected a different definition of “participant” prior to 2005. Therefore, caution should be used in comparing pre-2005 results with later figures.

**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 Millennium

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 SEC, 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, FASB 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.

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

### 2000–2009

2000	HealthCare introduces the first consumer-driven health plan.
	Vermont is the first state to enact a civil union law, which extended certain rights and protections similar to those granted to married couples to individuals of the same sex who are parties to a “civil union.”
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 enacts the first state data breach notification law.

	<p>California becomes the first state to enact a paid family leave program as part of the state's disability insurance program.</p>
2003	<p>The first ever federal privacy standards to protect patients' medical records and other health information take effect.</p>
	<p>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).</p>
	<p>FASB revises disclosure rules for employer-sponsored pensions and other postretirement benefit plans.</p>
	<p>The IRS releases final regulations interpreting the golden parachute tax rules.</p>
	<p>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.</p>
	<p>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.</p>
2004	<p>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.</p>
	<p>The American Jobs Creation Act changes the rules governing nonqualified compensation plans by imposing distribution and funding restrictions.</p>
	<p>The Pension Funding Equity Act provides pension plan funding relief by temporarily replacing the 30-year Treasury rate for some pension plan calculations.</p>
	<p>The SEC releases new Form 8-K disclosure rules that affect employment and other compensatory agreements with executive officers.</p>
	<p>FASB mandates that, beginning in 2005, companies have to show the fair value of their stock option awards on their income statements.</p>
2005	<p>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.</p>
	<p>In a first-of-its-kind move, 12 Nortel Networks executives repay bonuses and restricted stock payouts granted and paid based on manipulated financial statements.</p>
	<p>IRS rules open the door for employers to offer Roth 401(k) accounts.</p>

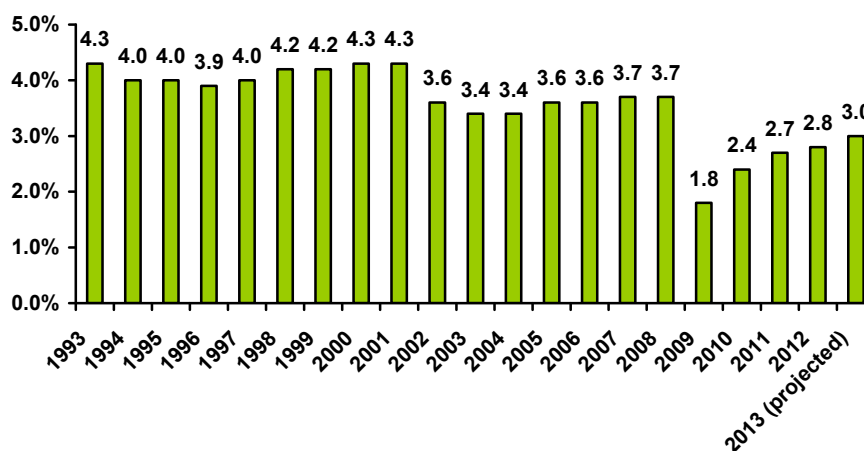
	<p>The Bankruptcy Abuse Prevention and Consumer Protection Act adds further protection for IRAs and employee retirement plan assets.</p> <p>In an effort to boost the use of FSAs, the IRS eases the “use it or lose it” rule. Plan sponsors may design plans that allow participants a “grace period”— the first 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.</p>
2006	<p>A stock option backdating scandal rocks the world of executive compensation.</p>
	<p>Massachusetts Governor Mitt Romney signs landmark health care legislation that requires all state residents to obtain health insurance.</p>
	<p>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>
	<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>An amendment to Nevada’s constitution creates a two-tier minimum wage in the state and permits employers that offer employees a qualified health insurance plan to pay the lower minimum wage rate.</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>Arizona is the first state to make E-Verify mandatory. The state law requires employers in the state to use the federal electronic employee verification system for new hires and permits the revocation of an employer’s business license as a penalty for knowingly employing unauthorized workers. The U.S. Supreme Court upheld the law in 2011.</p>
	<p>DOL rules protect employers with automatic enrollment programs from fiduciary liability if the investments to which they direct employees’ contributions 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>

	Aflac is the first publicly held American company to give shareholders a “say on pay”—a non-binding vote on executive compensation.
	FASB proposes amending Statement 123 to improve employers’ disclosures about postretirement benefit plan assets.
	The Genetic Information Nondiscrimination Act (GINA) prohibits employers from using genetic information to discriminate in health benefits and other terms of employment.
	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.
	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.
	HSA guidance is provided, including rules about offering on-site medical care or FSAs/HRAs when offering HSAs.
	Additional mental health parity legislation is enacted as part of a larger financial bailout package, the Emergency Economic Stabilization Act. 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.
	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.
	The ADA Amendments Act amends the ADA by clarifying the definition of disability and overturning U.S. Supreme Court decisions regarded by many in Congress as unduly limiting ADA protections.
	The Worker, Retiree, and Employer Recovery Act provides PPA funding relief for single-employer and multiemployer pension plans.
	President Obama signs fair pay legislation that expands workers’ rights to sue their employers for discriminatory compensation decisions.
2009	The American Recovery and Reinvestment Act 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. The COBRA premium assistance was extended several times, with eligibility eventually ending May 31, 2010.
	Embracing the growing social media trend, Ikea is one of the first companies to communicate the details of its health plan coverage on Twitter.
	Final rules are issued on health information breach notification requirements.
	The IRS issues final regulations on valuing assets and liabilities for the funding of single-employer defined benefit pension plans and benefit restrictions for underfunded defined benefit plans.
	The FMLA is amended to expand provisions related to military family leave.

## Trends Over Time: Salary Increases

Aon 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. However, in the past three years, base salary increases have increased slowly and are projected to reach 3% in 2013.

**U.S. Salary Increases (1993–2013)  
Salaried Exempt Employees**



Source: 2012–2013 U.S. Salary Increase Survey, Aon Hewitt

## 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

## A New Direction

Much of the focus in Congress and the White House, as well as across the states, in 2010 and the following two years was dominated by discussions on health care reform. The Patient Protection and Affordable Care Act (Affordable Care Act), which significantly altered the health care benefits landscape, was enacted in 2010 after months of negotiations. The law laid out a rapid timetable for implementation, and the federal agencies began developing regulatory guidance soon after enactment. Opposition to the law remained strong, and lawsuits against it were filed almost immediately. The U.S. Supreme Court agreed to hear one of the cases—whose plaintiffs included 26 states—in March 2012. The Court issued its decision in June 2012, ruling that the law was constitutional as a tax, which allowed for full implementation. Many states opted out of participating in development of the health insurance exchanges, a major foundation of the law, leaving much of the preparation to the federal government.

In addition to health care reform, there was increased focus throughout 2010–2012 on job creation, deficit reduction, and a regulatory overhaul of the financial system. Congress addressed regulation of the financial system through the enactment of the Dodd-Frank Act and also passed measures to stimulate job creation. However, a full resolution on deficit reduction was not reached going into 2013.

On the retirement front, the prolonged economic crisis and resulting financial challenges led many employees to tap into their retirement savings to alleviate short-term financial stress. The regulatory environment on the retirement side was much quieter than the health care side; however, significant regulatory topics addressed included lifetime income options, cash balance and other hybrid retirement plan guidance, and fee disclosure guidance for both retirement plan participants and service providers. A retirement trend that emerged was increased action in pension de-risking and settlement strategies.

When looking forward to 2014 and beyond, discussions on comprehensive tax reform and immigration reform are expected, as well as continued health care reform developments and changes in retirement plans to ensure adequate retirement savings.

### 2010–2013

<b>2010</b>	IBM is among the first companies to provide employees with 100% coverage—with no coinsurance or deductible—for primary health care coverage.
	A law intended to combat unemployment provides employers that hire workers who have been unemployed for at least 60 days a payroll tax holiday. Employers can also receive an income tax credit for every new hire that is retained for at least 52 weeks.
	Employers show further interest in domestic medical tourism options. Lowe’s announces a partnership with the Cleveland Clinic, giving employees the option to undergo heart surgery at the facility. The arrangement provides full coverage for the procedure with no deductibles or coinsurance and includes travel and lodging expenses. PepsiCo announces a similar arrangement in 2011 with Johns Hopkins Medicine.
	Mental health parity regulations are issued and require parity in the treatment of mental illnesses and substance use disorders by employer-sponsored group health plans.

After months of negotiations and numerous stumbling blocks, President Obama signs historic health care reform legislation—the Affordable Care Act—into law. A second law, the Health Care and Education Reconciliation Act, is enacted shortly thereafter and incorporates a series of amendments to the Affordable Care Act. The law:

- Requires individuals to purchase health insurance coverage or pay an income tax penalty beginning in 2014;
- Requires states to create health insurance exchanges by 2014 where individuals and small employers can purchase health insurance;
- Subjects employers to a “free rider” penalty, under which employers with at least 50 full-time employees must pay a penalty if a full-time employee receives a federal subsidy to purchase health insurance in the exchanges;
- Subjects grandfathered health plans to certain insurance reforms, such as extending coverage to children until age 26, prohibiting lifetime and annual limits, and prohibiting waiting periods beyond 90 days;
- Requires employers with more than 200 employees to automatically enroll new full-time employees in health care coverage;
- Creates a temporary reinsurance program to help employers offset the costs of expensive health claims for retirees ages 55–64 and their families;
- Imposes a 40% excise tax on the value of health coverage offered by employers that exceeds a certain threshold;
- Requires employers to report employees’ annual cost of health care coverage on their Forms W-2;
- Caps annual contributions to employer-provided health FSAs and limits reimbursement of over-the-counter medicines to those that have prescriptions;
- Imposes an additional Medicare tax of 0.9% on wages and 3.8% on unearned income on individuals receiving wages in excess of \$200,000 (or couples earning more than \$250,000); and
- Eliminates the deduction in 2013 for expenses allocable to the Medicare Part D subsidy paid to employers that maintain prescription drug plans for their Medicare Part D-eligible retirees.

As soon as the Affordable Care Act is finalized, federal agencies begin working quickly to issue regulations to implement the law. Guidance released in 2010 addresses the Early Retiree Reinsurance Program, adult coverage to age 26, lifetime and annual limits, rescissions, and patient protections, among other provisions of the law.

Legislation that includes defined benefit funding relief for single-employer and multiemployer pension plans is enacted.

The Dodd-Frank Wall Street Reform and Consumer Protection Act is enacted to improve accountability and transparency of banks and financial firms. The law includes several executive compensation provisions, including shareholder votes on executive pay and “golden parachutes,” new disclosure requirements for executive compensation, and clawback provisions.

California is the first state to form a health insurance exchange under the Affordable Care Act. Two states—Massachusetts and Utah—established independent health insurance exchanges prior to the Affordable Care Act.

Long-awaited final regulations provide guidance for cash balance and other hybrid retirement plans.

The DOL publishes a final regulation on fee disclosure to participants and beneficiaries in participant-directed individual account plans (e.g., 401(k) plans).

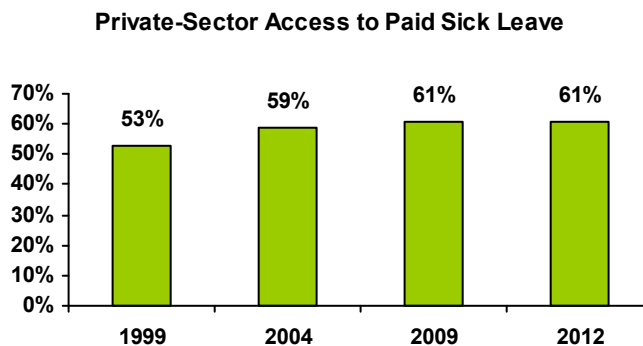
	<p>The prolonged economic crisis and resulting financial challenges led many employees to tap into their retirement savings to alleviate short-term financial stress.</p> <p>Final EEOC regulations implementing GINA address incentives for employees to complete health risk questionnaires and to participate in wellness programs.</p> <p>Current individual income tax rates and capital gains and dividends tax rates are extended for two years. The Social Security payroll tax for employees is also reduced from 6.2% to 4.2% for 2011 (which was later extended through the end of 2012).</p>
2011	<p>Final EEOC regulations broaden the definition of a “disability.” The new regulations make it easier for an individual to establish that he or she has a disability within the meaning of the ADA.</p>
	<p>The Affordable Care Act’s “free choice voucher” program is repealed.</p>
	<p>Wisconsin enacts a law that prohibits localities from imposing family or sick leave requirements on private employers. Several other states go on to consider similar preemption legislation.</p>
	<p>A Texas law amends its state health and safety code to impose patient privacy protections and data security requirements that are more stringent than the federal HIPAA law.</p>
	<p>Connecticut is the first state to legislate a paid sick leave requirement, joining the District of Columbia and the city of San Francisco. The law requires private employers in the state to provide paid sick leave to certain employees on an annual basis.</p>
	<p>Michigan enacts first-of-its-kind legislation that levies an assessment on third-party administrators and “carriers”—which includes insurers, HMOs, and employer group health plan sponsors—equal to 1% of certain paid health care claims of Michigan residents for services received in the state.</p>
	<p>Throughout 2011, federal agencies continue issuing regulations and other guidance to implement the Affordable Care Act. Guidance addresses Form W-2 reporting, employer shared responsibility provisions, essential health benefits, summary of benefits and coverage, health insurance exchange implementation, and preventive care requirements, among other provisions.</p>
2012	<p>Guidance is issued to reduce the barriers to lifetime income for retirees, encourage innovation, and expand choices for retirement plan participants. The guidance is part of an effort to facilitate access to, and use of, arrangements designed to provide a lifetime stream of income after retirement within employer-sponsored retirement plans and IRAs.</p>
	<p>The DOL releases final rules addressing the information that a retirement plan service provider must give to the plan’s fiduciary regarding the fees and other forms of compensation that the service provider expects to receive for contracted services.</p>
	<p>Several private health insurance benefits exchange models emerge. The exchanges are based on a defined contribution concept where employers pay a set amount toward health coverage and employees can choose a benefits package that fits their needs using the employer contribution and their own contribution.</p>
	<p>Companies with less than \$1 billion in revenue are exempt from say-on-pay rules and pay-versus-performance and pay ratio disclosure requirements.</p>
	<p>Several companies, including Ford, General Motors, and Verizon Communications, announce major pension settlement actions. Continued trends in pension de-risking and settlement strategies are expected.</p>
	<p>Maryland is the first state to enact a social media privacy protection law, which prohibits employers from requiring disclosure of employees’ or job applicants’ social media user names or passwords as a condition of employment.</p>



	<p>The U.S. Supreme Court ruled 5-4 in <i>NFIB v. Sebelius</i> that the Affordable Care Act is constitutional as a tax, thereby allowing the law to be fully implemented.</p> <p>The Moving Ahead for Progress in the 21st Century Act includes pension funding stabilization provisions and PBGC premium increases.</p> <p>Affordable Care Act implementation continues throughout 2012. Guidance addresses wellness programs, calculating minimum value, the Patient-Centered Outcomes Research Institute fee, and tax provisions, among other provisions.</p>
2013	<p>The American Taxpayer Relief Act permanently extends several employee fringe benefit tax provisions. The law also allows 401(k), 403(b), and 457(b) plans to be amended to permit the conversion of taxable vested amounts to a designated Roth account maintained within the plan.</p> <p>The U.S. Supreme Court strikes down the DOMA provision defining marriage as the union of one man and one woman for purposes of federal law as an unconstitutional deprivation of the equal protection guaranteed by the Fifth Amendment. In another ruling on same-sex marriage, the Court dismisses a case involving California's Proposition 8, a ban on same-sex marriage, for lack of standing, effectively leaving in place a lower court's decision that overturns Proposition 8. Employers weigh the possible impact of the cases on their employee benefit strategies and payroll systems while awaiting guidance from federal and state agencies.</p> <p>Citing employer concerns about the complexity of the Affordable Care Act's reporting requirements and the need for more time to implement them effectively, the Obama Administration announces that a key element of the Act—the employer mandate to offer health insurance coverage to full-time employees or pay penalties if such employees obtain subsidized health care coverage from health insurance exchanges—will be delayed for one year (until 2015). Agencies hasten to complete guidance before other fast-approaching deadlines under Act for individuals, employers, insurers, and others.</p> <p>With the Affordable Care Act's health insurance exchanges slated to become operational in 2014, states decide on their level of participation. As of July 2013, the District of Columbia and 17 states elect to run their own exchanges, six states elect to run state-federal partnership exchanges, and 27 states will leave operation up to the federal government.</p> <p>Oregon becomes the first state to mandate bereavement leave.</p> <p>New York City (NYC) becomes the largest city to require businesses to provide employees with paid sick leave. NYC joins Seattle, Washington; San Francisco, California; Portland, Oregon; Long Beach, California; Philadelphia, Pennsylvania; and Washington, D.C.—all cities that provide paid sick leave benefits to workers.</p>

## Trends Over Time: Paid Sick Leave

Work and family issues have received attention in recent years, in particular access to paid sick leave. Currently, about 61% of private-sector workers in the United States have access to paid sick leave. However, many workers in low-wage industries (e.g., food service, hotel) lack access.



Source: National Compensation Survey, Bureau of Labor Statistics Survey

In general, paid family/sick leave legislation attempts to address the needs of employees to receive some type of wage continuation and job protection when time away from work is necessary to care for newborns and ill family members, as well as when employees themselves experience a serious illness. Federal legislation mandating paid sick leave has been introduced in every Congress since 2004, but has not gained enough support for enactment. However, some states have taken action to increase workers' access to paid sick leave. California, Connecticut, New Jersey, and Washington State have enacted laws addressing paid sick/family leave. In addition to these states, some cities, including Long Beach, Philadelphia, San Francisco, Seattle, and Washington, D.C., have joined in the efforts and enacted paid sick leave measures—some more expansive than others. It is expected that this trend will continue in the coming years.

Conversely, states have also taken action to limit localities from imposing family or sick leave requirements on private employers. In 2011, Wisconsin enacted a preemption law in response to a paid sick initiative in Milwaukee. Several other states are considering similar preemption legislation.

## Significant Social Security & Medicare Developments

2010 First year without an automatic Social Security COLA since its introduction in 1975.

2011 Social Security payroll tax for employees reduced from 6.2% to 4.2% (later extended through the end of 2012).

Cost sharing for Medicare preventive services eliminated.

2013 Social Security payroll tax for employees returns to 6.2%.

### Social Security & Medicare Statistics

	Social Security	Medicare
2010	54.0 million beneficiaries	47.5 million beneficiaries Part A deductible—\$1,100/year Part B premium—\$110.50/month



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