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THE HISTORY OF PENSIONS
What is your time horizon?

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Presentation Overview

The purpose of this presentation is to provide a brief survey of the history and evolution of pensions.

Questions for discussion:

1) When did pensions first start?
2) Why were pensions created?
3) How have they evolved?
4) What does this mean today?

Much of this information and additional historic resources can be viewed on the free history website: www.statutesandstories.com

Roman military pensions

- Romans offer retired soldiers (centurions) land or a pension (after 25 year career – good luck);
- In 13 BC, the Emperor Augustus created a formal pension plan, awarded after 16 years in a legion and 4 years in the reserves. The pension was paid from general revenues.
- 5 or 6 AD - Augustus created a special fund for military pensions (dedicated funding).
- Roman empire was held together by roads and a highly trained, loyal and professional full time army;
- The payment of monthly pensions eventually became ad-hoc and unfunded;
- Did the failure to uphold the pension promise contribute to the decline of the Roman Empire?

British & German pensions

- 1645 – Duke Ernest the Pious (protestant prince in the Saxe-Weimar region of Germany) created a fund to support widows of clergyman during golden age following the 30 Year War
- 1662: Pious' fund was extended to widows of teachers
- 1881: Otto von Bismarck (conservative minister of Prussia) proposes a governmental pension for older workers (based on pressure from socialist opposition)
- 1890: Prussia creates a form of social security at age 70
- 1908: England passes Old Age Pension Act (social security at age 70)

First "American" pensions

- In 1635, Plymouth colony offered the first colonial pension
- The simple, one sentence act provided as follows:

  "It is enacted by the Court that if any man shalbe sent forth as a souldier and shall returned maimed hee shalbe maintained competently by the Collonie during his life."

- Similar laws were subsequently adopted in several other colonies, including Virginia, NY, RI and Maryland.

Virginia Act of 1644

"All hurt or maimed men be relieved and provided for by the several colonies."

- Hening's Laws of Virginia, Vol. I, page 287:

ACT IX.

WHEREAS in the late expeditions against the Indians, diverse men were hurt and maymed and disabled from provideing for their necessary maintenance and subsistance, *Be it therefore enacted by the authoritie of this present Grand Assembly*, That all hurt or maymed men be releived and provided for by the severall counties, where such men reside or inhabitt.

Those wounded in the late expeditions against the Indians to be supported by their county.

Virginia’s Act of 1675

- In 1675, Virginia expanded its pension law to provide not only for the support of disabled soldiers but also promised to support widows and orphans.

“An act for the safeguard and defense of the country against Indians” provided that “due consideration shalbe had by the grand assembly of the indigent ffamilies of such as happen to be slaine, and of the persons and ffamilies of those who shalbe maimed and disabled in this war.”

- This expansion of pension protections was adopted during King Philip’s War, otherwise known as the First Indian War.

Virginia's Act of 1675

- Hening's Laws of Virginia, Vol. II, page 331:

and require and receive hostages from them, alsoe to provide one hundred yards of tradeing cloath to each respective ffort, that it be ready to reward the service of Indians, as hereafter in and by this act shall be provided. *And be it further enacted by the authority aforesaid*, that every footeman in standing pay be allowed after the rate of ffifteene hundred pounds of tobacco and caske per yeare, and every horseman for himselfe and horse after the rate of two thousand pounds of tobacco and caske; that captains pay be six hundred pounds of tobacco and caske per month, a leiutenants pay fowre hundred pounds of tobacco and caske per month, ensignes three hundred pounds of tobacco and caske the month, serjeants two hundred and ffifty, corporalls and drummers each one hundred and ffifty pounds of tobacco and caske the month soe long as they shall continue in service, together with all advantages allowed by the law of armes. And further, that due consideration shalbe had by the grand assembly of the indigent ffamilies of such as happen to be slaine, and of the persons and ffamilies of those who shalbe maimed and disabled in this warr. And if any horse shalbe

Pay to footmen and horsemen

Captains.

Lieutenants.

Ensigns.

Sergeants.

Corporals' and drummers'.

Provision for the families of those slain.

Owner of

Washington at Valley Forge

- The first federal pension law for disabled veterans was adopted during the Revolutionary War on 8/26/1776.
- The Continental Congress wanted to encourage military enlistment while limiting desertion by granting a pension in cases of loss of limb or other serious disability.
- General Washington was a strong proponent of "half pay and pensionary establishment."

Washington at Valley Forge

- During the harsh Valley Forge winter, Washington sent Congress the following message on 1/28/1778:
- Washington explained that the requested half pay pension would "not only dispel the apprehension of personal distress at the termination of the war, from having thrown themselves out of professions and employments they might not have the power to resume; but in a great degree relieve the painful anticipation of leaving their widows and orphans, a burthen on the charity of their country, should it be their lot to fall in its defense."

Revolutionary War Pension

- Following Washington's report and appeal for action, the Continental Congress unanimously voted in1778 for a half pay pension for all commissioned officers who continued in the service of the United States through the end of the war.
- Yet, because the Continental Congress did not have the authority or the funds to make payments, the actual distributions were left the states, with varying success.
- In 1780 a resolution was adopted extending half pay to widows and orphan children of officers killed in action.
- Ultimately, compliance with their revolutionary pension obligations depended on the individual state. It is believed that only 3,000 Revolutionary War veterans received pensions. Subsequently, grants of public land were issued to those who served through the end of the war.

1st Congress and Hamilton

- In 1789, after the adoption of the U.S. Constitution, the first Congress assumed the burden of paying veterans benefits. The first federal pension law continued the pension law passed by the Continental Congress. Act of July 16, 1790, 1 Stat. 95.
- Alexander Hamilton and Revolutionary War veterans were among the strongest supporters of the new Constitution because they understood that a strong central government was necessary to backstop the national pension obligation.
- Successive annual appropriations were required as Congress only accepted financial responsibility on an annual basis.
- By 1816 the pension rolls numbered 2,200 pensioners. Due to the growing cost of living and a surplus in the Treasury, Congress raised payments for all disabled veterans and granted half-pay pensions for five years to widows and orphans of soldiers of the War of 1812.

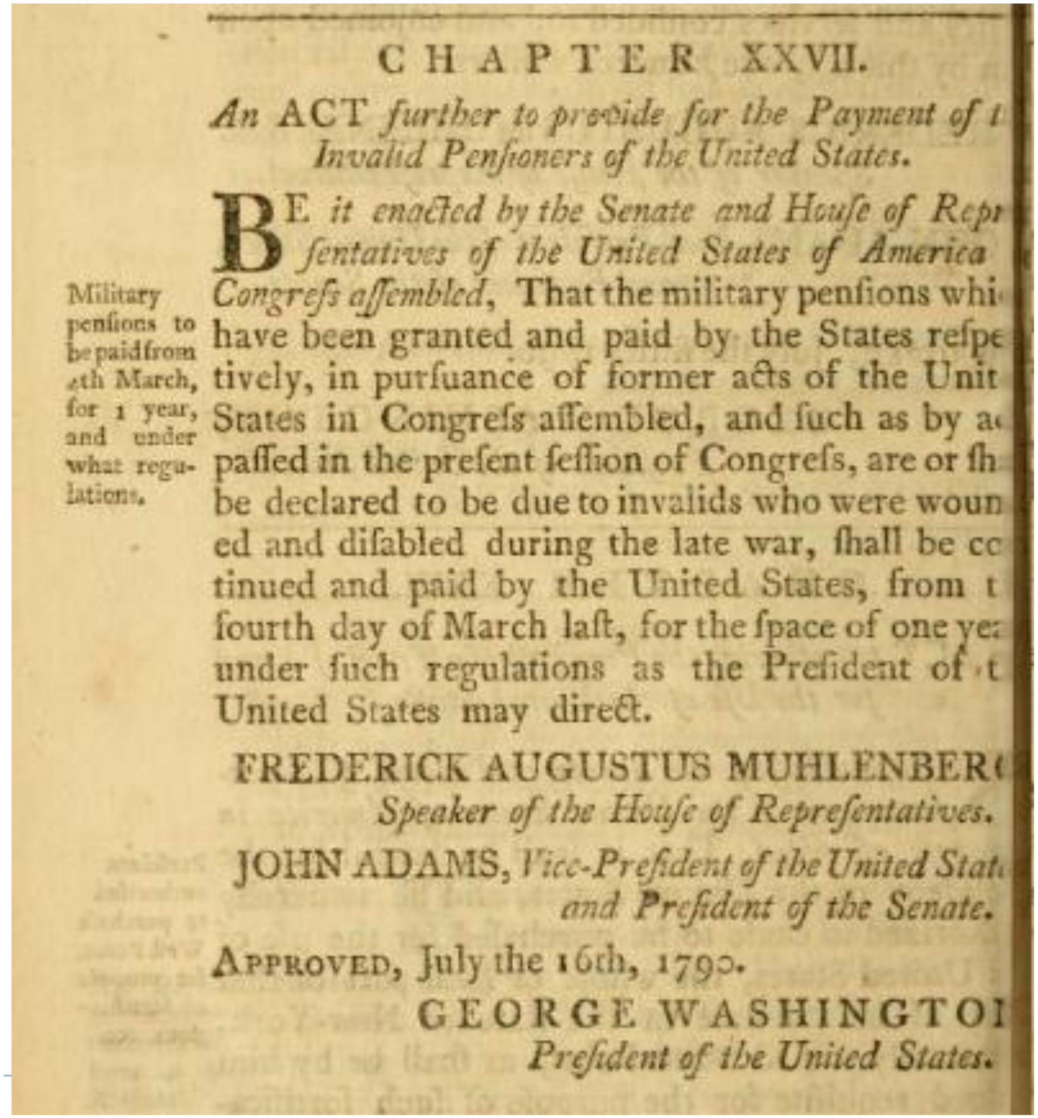
1st Federal Pension – 1790

Sec. 11. *And be it further enacted*, That if any ommiſſioned officer, non-commiſſioned officer, pri-rate or muſician aforeſaid, ſhall be wounded or liſabled while in the line of his duty in public ſer-rice, he ſhall be placed on the liſt of the invalids of he United States, at ſuch rate of pay, and under uch regulations as ſhall be directed by the Preſi-

If wounded or diſabled, what compenſation to.

dent of the United States, for the time being: *Pr vided always*, That the rate of compenſation f ſuch wounds or diſabilities, ſhall never exceed f the higheſt diſability, half the monthly pay receiv by any commiſſioned officer, at the time of bei ſo wounded or diſabled; and that the rate of co penſation to non-commiſſioned officers, privates a muſicians, ſhall never exceed five dollars per mont *And provided alſo*, That all inferior diſabilities ſh entitle the perſons ſo diſabled, to receive only a ſe in proportion to the higheſt diſability.

Federal Government Assumes State Pension Debts (1790)



CHAPTER XXVII.

An ACT *further to provide for the Payment of t*
Invalid Penſioners of the United States.

Military penſions to be paid from 4th March, for 1 year, and under what regulations.

BE *it enacted by the Senate and Houſe of Repr ſentatives of the United States of America Congreſs aſſembled*, That the military penſions whi have been granted and paid by the States reſpe tively, in purſuance of former acts of the Unit States in Congreſs aſſembled, and ſuch as by a paſſed in the preſent ſeſſion of Congreſs, are or ſh be declared to be due to invalids who were woun ed and diſabled during the late war, ſhall be co tinued and paid by the United States, from t fourth day of March laſt, for the ſpace of one yea under ſuch regulations as the Preſident of t United States may direct.

FREDERICK AUGUSTUS MUHLENBER
Speaker of the Houſe of Repreſentatives.

JOHN ADAMS, *Vice-Preſident of the United Stat*
and Preſident of the Senate.

APPROVED, July the 16th, 1790.

GEORGE WASHINGTO
Preſident of the United States.

First Municipal pensions

- 1857 - New York City provided a lump sum for police officers injured in the line of duty
- 1866 – New York City extends disability benefit to firefighters
- 1878 – New York City provides a lifetime pension for police at age 55 after 21 years of service (first municipal plan)
- 1894 – New York City establishes the first teacher plan

Progressive Era:

- 1911 – Massachusetts establishes the first general employee plan
- Teacher plans: ND & CA (1913); MA('14); CN & PA('17); NJ ('19)
- 1920 – Civil Service Retirement Act of 1920 creates the first civil service federal pension (min of 30%; max of 60%; one of the aims was to encourage retirement of long serving employees)

Private Sector Plans

- 1875 – The American Express Company establishes the first private pension plan in the US (intended to create a stable, reliable, career minded workforce)
- 1899 – 13 Private Sector Plans (Banks and Railroads)
- 1900 – Life expectancy is approximately 49 years (from birth). The average 60 year old will live for 12 years
- 1919 – Over 300 Private Sector Pensions (covering approximately 15% of private sector employees)
- 1921 – Internal Revenue Act of 1921 exempted pension contributions from federal corporate income tax

Private Sector Plans

- 1935 – Social Security is created. Life expectancy improved to age 60 (from birth); public sector employees are excluded due to concerns over federalism
- World War II – Following the war, large corporate employers adopted a paternalistic career approach for recruitment and retention.
- Labor unions began negotiating for pension. It was not uncommon for workers to spend their entire careers at the same company.
- (Compare with 2014 when the U.S. Bureau of Labor Statistics reported the average employee tenure was 4.6 years)

Private Sector Plans

- 1950 – 9.8 million private sector employees are covered by pension plan (25%)
- 1960 – 18.7m million covered by a private plan (41%)
- 1970 – 26.3m covered by a private plan (45%)
- 1974 ERISA adopted
- 1978 The Revenue Act of 1978 - Section 401(k)

The 401(k) was intended as a tool to allow high paid corporate executives to defer income in tax advantaged accounts. Largely unnoticed until Reagan's IRS changes rules.

Private Sector Plans

1980 - 36m private sector employees in pension (46%)

1983 - Social Security Amended: gradually lowers age to 67

1986 - Tax Reform Act of ‘86: safer but regulatory complexity

1990 - 39.5m private sector employees in a pension (45%)

1999 - 40m employees in a private DB plan (60m in a DC plan)

2006 - Pension Protection Act: regulatory complexity/unintended consequences

2009 - AARP suspends its 401(k) match

2013 - 17% of private sector employees in a DB plan

2018 - approximately 10% of employees participate in a DB plan

Public Sector Plans

- Between 2009 – 2013 48 states amend their public plan
- 34 states add/increase employee contributions (including FRS)
- 30 states reduced COLAs; 18 states created hybrid options
- NCPERS study concludes that these changes will contribute to growing income inequality and less retirement security

"Income Inequality: Hidden Economic Cost of Prevailing Approaches to Pension Reforms"

"The study showed a strong correlation over three decades between the declining number of workers covered by defined benefit pension plans and the growing income gap between rich and poor Americans."

- 2017 – 86% of governmental employees have access to a DB plan

Resources

- Library of Congress
- National Archives
- Avalon Project: Avalon.law.yale.edu
- Founders.archives.gov
- Statutesandstories.com (references)