Chapter 2

History of Retirement in America

Retirement as we know it today is a fairly recent phenomenon, and the concept dates back to the early 1900s, even before the start of the Social Security system in 1935. Labor-force participation rates for men over the age of 65 have steadily declined from 1880 when it was 78%, to 2000 when it was 17.5% as measured by the U.S. census. Slowly our country moved from primarily an agricultural society to a more urban society. By 1920, the number of people living in cities was greater than the number of people living on farms.

The creation of Social Security in 1935 accelerated the decline in labor force participation, evidenced by a 58% participation rate in 1930 and 43.5% participation rate in 1940. Prior to this time, most people worked up until they could no longer work and then were taken care of by extended family members until death. Indeed, in some countries in the world today this is still the prevailing structure, with no governmental support or safety net for a person's final years. Retirement as Americans understand it today is a fairly new concept.

When monthly Social Security payments first started in 1940, there were 112,331 people who received benefits. In addition, the average length of benefits paid to the retired person was 12.7 years for men and 14.7 years for women. As of 1990, the average age of retirement was 62 years old (the age when people can first start collecting benefits) and the average payment of those benefits lasted 15.3 years for men and 19.6 years for women. Most early beneficiaries received benefits in a far greater amount than what they contributed in Social Security taxes.

From 1937 to 2008, Social Security taxes have amounted to $13.058 trillion, with $10.640 trillion made in payments. As of the end of 2008, there was $2.419 trillion invested in the Social Security Trust Fund, and those dollars are all invested in various long-term U.S. government bonds that pay interest at market rates. The current balance in the Social Security Trust Fund is projected to last between 30-75 years under the existing regulations, depending on assumptions utilized.

Unfortunately, most Americans have done a poor job of preparing for retirement. According to the Employee Retirement Benefit Institute (ERBI) 2009 survey of retirement confidence, 64% of all American workers have less than $50,000 saved for retirement. This lack of savings has persisted since the survey started in 1991. Social Security payments have now become the main source of retirement income for the majority of people in retirement in the U.S.

History of Financial Planning in America

The origins of the financial planning profession in America can be traced back to a gathering of thirteen people at a hotel meeting room near the Chicago O'Hare International Airport on December 12, 1969 (Brandon & Welch, 2009). During this meeting, the people involved discussed the need for a financial planning profession. Other important milestones include the formation of the International Association for Financial Planning (IAFP) in 1970, and the incorporation of the College of Financial Planning in 1972. The first class of 42 graduates from the College of Financial Planning occurred in 1973. In 1985 the Certified Financial Planner® (CFP®) Board was founded; previously it was named the International Board of Standards and Practices for Certified Financial Planner, or IBCFP. In 1987 the first 21 universities[3] were registered by the CFP Board as having educational programs in financial planning, and in 1992 the first comprehensive CFP® exam was offered. By 2009 the profession

[3] For a complete listing of the first 21 CFP Board registered universities, please see Appendix B. Note that some of the first 21 universities are no longer registered with the CFP Board.