Retirement History Lecture Notes

Taxes are a reality and must be considered when determining the expected return on an investment. Taxes are compulsory charges imposed by the federal government on its citizens and their property. A person should defer the effects of taxes by investing into a tax-deferred account up to the maximum limit. Tax-deferred means that taxes will not be paid until a person takes the money out of the investment. The initial investment, interest earned, and money that would have been paid in taxes will continue to earn money, not subject to taxes, until the person chooses to withdraw the money. There are several different types of retirement accounts that are tax-deferred in which an individual could invest in. We will be talking about four main accounts:

- 403(b)
- 401(k)
- IRA
- Roth IRA

History

The history of retirement plans date back to 1875. The American Express Company set up the first employer-sponsored pension plans in the United States. The plan was created for employees that had at least 20 years of service at the age of 60. The history of retirement plans have grown to cover more than 45 million participants through over 700,000 private retirement plans.

As the history of retirement plans developed, the Revenue Act of 1926 allowed employers contributions to the retirement plans to be tax deductible. This act made establishing retirement accounts for employees a valuable benefit for employers to offer employees.

In 1935, Congress passed the Social Security Act, which today is a still a hot topic in the history of retirement plans. The Social Security Act was a great supplement to employer established retirement plans; as well as for individuals who did not have employer retirement plans to build their retirement account. Today, the Social Security Act is under great scrutiny as to whether this is still a viable option.

Through the history of retirement plans, we see acts that have been passed to protect both businesses and individuals in matters of retirement accounts. 1942 s Revenue Act prohibited employers from giving richer benefits to higher paid officers and employees. Self-employed people were able to setup their own tax deferred retirements plans, thanks to The Self-Employed Individuals Tax Retirement Act in 1962.

During the last thirty years, history of retirement plans include the Employee Retirement Income Security act of 1974, The Revenue Act of 1978 and in 1986 Congress eliminated the tax deduction for IRA contributions by higher-paid workers.

In 1978, Congress amended the Internal Revenue Code to add section 401(k). This particular plan was originally intended for executives, however the 401(k) plan proved to be popular with workers at all levels because it had a higher yearly contribution limit that the Individual Retirement Account (IRA). The 401(k) also usually came with a company match and provided greater flexibility.

A primary reason for the explosion of the 401(k) plans is that such plans cost less for employers to maintain than a pension plan for every retire worker. With a 401(k) plan, instead of the required pension contributions, the employer only has to pay the plan administration and support the costs if they elect not to match the employee contributions or make profit sharing contributions. The cost of administrating the plan can also be passed to the plan participants.

As our economy evolves, the history of retirement plans is altered. However, one constant in the history of retirement plans is the **benefit** of using a retirement plan to plan for your retirement.