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Retirement in America: *How We Got Here and What It Means Today*

Like so many things in modern civilization, the concept of retirement can trace its roots back to the Roman Empire. Idealists would say that retirement in the days of Caesar Augustus was invented to compensate retired soldiers as thanks from a grateful nation. But cynics, and perhaps more accurate historians, would acknowledge that Caesar's motives were likely more pragmatic and intended to prevent unrest by pacifying the aging professional military class.

Either way, two millennia ago under Augustus, Rome introduced a radical concept: that someone could step away from their occupation and receive income not from their labors, but from a system. That idea would lie mostly dormant for centuries.

What follows is admittedly an overly concise summary of how that Roman idea evolved in the "New Republic" of the United States.

Industrialization and the First Modern Retirement Systems

It wasn't until the late 19th century, in the wake of the Civil War and during the Industrial Revolution, that a modern version of retirement began to take shape in the United States. As America shifted from an agrarian economy to a factory-driven one, the idea of working productively into old age became less realistic. Physical labor didn't age well. Employers began to recognize this, and the private sector led the way with early pension systems.

The first defined benefit pension plan is generally credited to the American Express Company in 1875, followed by broader adoption among railroads and large industrial firms in the decades that followed.

These plans were simple in concept: work for a company long enough, and the company would take care of you in retirement.

And for a time, the system worked. That is, until it didn't. The economic shocks of World War I, the Great Depression, and subsequent corporate belt-tightening exposed a fundamental flaw: these promises were largely voluntary and often unfunded. When conditions deteriorated, pensions were among the first benefits to be reduced or eliminated.

The Social Contract: Social Security

Against that backdrop, President Franklin D. Roosevelt signed the Social Security Act into law in 1935. In doing so and likely without an understanding of how much his original

intent would become mutated over time, President Roosevelt instituted a system that would eventually morph into a significant government-sponsored safety net for a large and growing portion of the U.S. population.

While often framed as a retirement program, Social Security was originally designed as a safety net, not a comprehensive solution. It was meant to provide baseline support for older Americans who could no longer work, but not to fully replace income.

It also introduced a new concept: a government-administered, pay-as-you-go system, where current workers fund current retirees. At inception, the math worked. There were more than 40 workers for every retiree. Life expectancy was shorter. Benefits were modest. But over time, all three of those variables shifted dramatically.

The Pension Peak and Its Unraveling

From the 1940s through the 1970s, defined benefit pensions reached their peak. Large corporations offered retirement security as part of a broader social contract with employees. If you stayed loyal to the company, the company would provide for your retirement.

But beneath the surface, cracks were forming. Increased life expectancy made pensions more expensive for employers to fund; workforce mobility reduced the effectiveness of long-term benefit structures and shifted the concept of corporate loyalty (in both directions); runaway inflation in the 1970s dramatically disrupted financial assumptions of funding models; and corporate balance sheets became strained under long-term liabilities. The result was predictable: companies began looking for a way out.

The 401(k) Revolution and the Transfer of Responsibility

In 1978, Congress passed legislation that included a relatively obscure provision, Internal Revenue Code Section 401(k). It was not originally designed to replace pensions. But by the early 1980s, employers began to recognize its potential.

For the first time, employees could defer a portion of their wages, invest those savings, and receive tax advantages. Employers could contribute as well, often through matching programs.

What followed was one of the most significant financial transitions in modern history. Responsibility for funding an employee's retirement moved from the employer to the employee.

Defined benefit plans gradually gave way to defined contribution plans. Employers reduced long term liabilities. Employees gained flexibility but also assumed greater responsibility and risk. Today, participation in 401(k) plans is widespread. Employer matching is no longer considered a perk; it has largely become an expectation in many industries. What disappeared in the transition was certainty.

The Emerging Divide in Retirement Outcomes

One of the more underappreciated developments in the modern system is that retirement in America is no longer one unified experience. It is increasingly bifurcated. Financial news networks frequently discuss a “K-shaped” economy, and the reality in the current landscape of retirement and social security in this country is the existence of an inverse “K-shape” in how retirement is funded.

For a meaningful portion of the population, retirement income is largely dependent on government programs. Social Security, along with other forms of public support, represents the primary or sole source of income. In many cases, lifetime contributions into the system are modest relative to the benefits ultimately received, particularly when viewed across generations.

For another segment, retirement is self-funded. These individuals contribute consistently through payroll taxes and personal savings, often building substantial assets over time. Yet they face a different set of uncertainties. Questions around future benefit levels, eligibility ages, and long-term system sustainability create a sense that the rules may change over time.

The result is a dynamic that can feel like two different systems operating in parallel. One is largely dependent on government-funded benefits. The other is increasingly reliant on personal capital and planning discipline. Importantly, both systems are influenced by the same underlying pressures: (i) demographics that skew older, (ii) longer life expectancies, (iii) rising healthcare costs, and (iv) government deficits and fiscal constraints.

These forces do not operate in isolation. They shape policy decisions, and in turn influence outcomes for both groups. For those relying primarily on government benefits, the risk is that those benefits may not keep pace with the cost of living or desired lifestyle. For those building their own retirement capital, the risk is different. It is less about adequacy of the system and more about uncertainty around the rules that govern it.

Where We Are Today

Modern retirement planning exists in a somewhat unusual position. We have more tools than any prior generation, yet less clarity. Investors today have access to 401(k) and profit sharing plans, traditional and Roth IRAs, health savings accounts, taxable investment portfolios, and a wide range of planning strategies and investment options.

At the same time, individuals are responsible for answering questions that previous generations rarely had to consider. How much is enough? How should my assets be invested? When should I retire? How much can be spent without running out?

In earlier systems, many of these decisions were made by employers or embedded in pension formulas. Today, they are personal decisions that require judgment and discipline.

A More Useful Framework than Retirement: Financial Independence

It can be helpful to step back and recognize what has actually changed. Retirement is no longer a fixed event supported primarily by an employer or the government. It is better understood as a transition funded by personal capital.

In that sense, the more useful concept is not retirement, but financial independence. The key question shifts from “When can I retire?” to “When does work become optional?” That distinction matters. It reframes planning away from a date on the calendar and toward a broader understanding of flexibility and control. But it’s also worth acknowledging that the answer to “how much is enough?” is a delicate balance influenced by many factors. Some factors are financial. Just as many relate to risk tolerance, the balance between spending now and saving for later, longevity, and other less tangible considerations.

As well, newer practical implications abound from continued changes to the way we work in America. Gone is the default path of working full-time until age 65 when you get a sheet cake and a gold watch and are put out to pasture. Flexibility has increased. While the loss of pensions reduced certainty, it also created options. Many individuals now choose phased retirements, second careers, or entirely new pursuits later in life.

Prior generations could rely on pensions and Social Security as primary income sources. Today’s system requires much more intentional planning. Saving is necessary, but it is not sufficient. Investment decisions, tax efficiency, and distribution strategy all play a meaningful role. And longevity is a defining factor too. Retirement is no longer a short phase at the end of life. For many families, it may last several decades.

Retirement planning today is less about solving a formula and more about navigating a complex system that continues to evolve.

Closing Thoughts

From Roman soldiers to modern 401(k) participants, retirement has been shaped by economic reality more than idealism. Each generation has inherited a system and adapted it. Today’s system places a great deal of responsibility on the individual employees. And while that can create stress around the uncertainty of outcomes, it also creates opportunity for those who approach it with discipline and clarity.

At MBL, we think the objective is not simply to retire. It is to build a structure where work is meaningful, optional, and aligned with what matters most. The Greek concept of *arketa* reminds us that wealth is not defined by accumulation alone, but by understanding what is enough. And by asking that question, we are reminded that the most precious resource any of us have isn’t money; it’s time.

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