

TRANSITIONING TO 401(k) PLANS - A TRAIN WRECK IN THE MAKING

401(k) plans have almost completely replaced defined benefit (DB) pension plans in the private sector. Their history shows that they have resulted in a **disastrous loss of retirement security** as demonstrated by the following:

- In 2011, the Wall Street Journal reported that the median household headed by a 60-62 year old with a 401(k) had less than one fourth of what they needed to maintain their standard of living.
- The average 401(k) account balance of workers with 30 years of private sector experience is only \$149,000 to support decades of retirement.
- In 1991, 50% of workers expected to retire by 65. Today, it is only 23%.
- NIRS report from May, 2011 stated that polling shows that 84% of Americans are in a state of panic regarding their retirement security.

Why 401(k) plans do not provide retirement security:

1. To provide adequate income during retirement, **401(k)s need regular, substantial contributions over 30 years or more. *Instead:***
 - Employers have decreased their contributions to 401(k)s - many contribute 0, and workers contribute only what they can afford - often little or nothing.
 - Workers can borrow on their plans (21% had "loans" in 2009) or cash them out when they change jobs (incurring a 10% tax penalty). In difficult economic times, both borrowing and cashing out increase.

2. 401(k) plans must earn sufficient returns over the life of the plan.

Instead:

- The stock market is unpredictable. There was no net return from 1999-2009 and 401(k)s lost one third of their money between Oct. 2007 and Jan. 2009.
- Most individuals lack expertise in investing funds and they need to be more conservative with their investments than a pooled, long term DB plan.
- Individuals cannot maintain the same long term, balanced, diversified portfolio as in DB plans which are able to pool longevity risks.
- Individuals do not have the full range of investment options available.
- Management and other fees are much higher than for DB plans.

The result: the cost to provide the same retirement benefit is almost twice as much in a 401(k) plan as in a DB plan.

The private sector's experiment with 401(k) plans has demonstrated they are not viable retirement vehicles when used to fund basic retirements and will lead to poor retirees that will be a drain on the U.S.'s consumer-driven economy.

Prepared by the CRCEA Retirement Security Committee. For more information, go to www.crcearesearch.com