

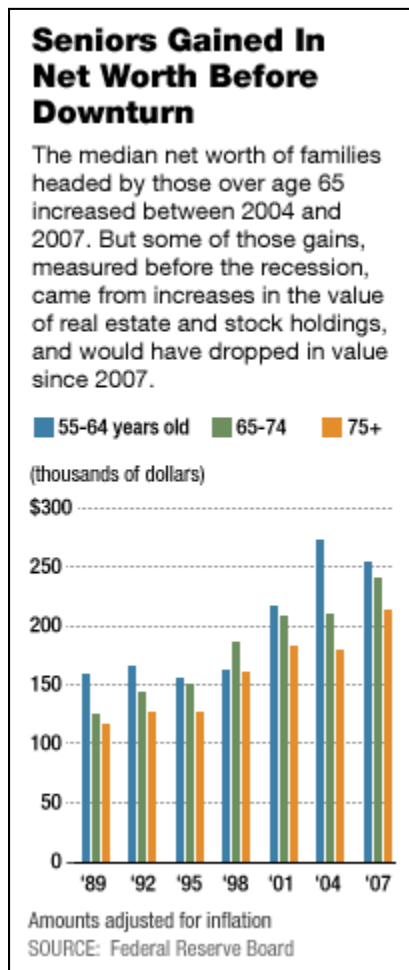
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June 1, 2009

Series: The New Future Of Life After Work

Is The 401(k) A Good Deal For America's Workers?

by Martin Kaste

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[All Things Considered](#), June 1, 2009 · The 401(k) is the one part of the U.S. tax code that everybody has heard of. During the giddy stock market rise of the 1990s, it was a source of delight for aging workers. During last fall's market crash, "401(k)" practically became a curse word.

The accounts originated in the 1970s as an obscure tax shelter for the well-to-do — a way for corporate executives in high tax brackets to shield some of their earnings from the IRS until retirement. But in the 1980s, the 401(k) started taking off — along with a similar plan for nonprofits, called the 403(b) — gradually displacing more traditional pensions.

As the experts put it, "defined-benefit plans" (pensions) were displaced by "defined-contribution plans" (401(k) and its brethren). According to Boston College's Center for Retirement Research, the [changeover](#) has been dramatic. In 1983, 62 percent of workers with retirement plans had a defined-benefit plan only. By 2007, 63 percent had a defined-contribution plan only.

That means more Americans are counting on the stock market to provide for them in their golden years.

Mark Roberts, 48, is one of them. He works in the banking industry near Seattle. Roberts checks his 401(k) at least once a week — not a pleasant task, recently.

"I've seen my 401(k) drop somewhat," Roberts says. "Maybe about 25 percent?"

Roberts has actually done pretty well. His 401(k) investments were aggressive when he was younger, and they grew quite a bit. In a lot of ways, he's the ideal 401(k) owner: He's market savvy, and he has a long-term investment plan.

"I don't buy and sell quickly," Roberts says. "I usually just buy and hold on to them, and I wait for good things to happen over the long run."

Most importantly, he plans to ease out of riskier investments as he gets closer to retirement age.

'Inertia' Among Workers With 401(k) Plans

Unfortunately, most of the 50 million or so Americans with these retirement



Our [weeklong series](#) on *All Things Considered* begins June 1 and will include:

- An examination of the 401(k) model
- Conversations with people in their 40s, 50s and 60s about their retirement plans
- [An expert who will respond to your questions](#)
- A look at the state of Social Security
- A snapshot of what retirement looks like for people in rural communities

savings accounts are nothing like Roberts.

"It's very unusual for people to pay much attention to their 401(k)s," says [Olivia Mitchell of the Pension Research Council at the Wharton School of the University of Pennsylvania](#). "On average, the typical worker — if he's lucky — will sign up with his plan when he takes his job, and then never look at it again until 40 years have passed and maybe there's some money in it."

Mitchell has documented what she calls "inertia" among workers with 401(k) plans. They tend to leave their plans as they were set up by their employers, sometimes with an unhealthy amount of their own company's stock. If there's a big market downturn right before they retire, they stand to lose a lot.

Recent changes in the law have tried to nudge Americans into being smarter with their 401(k) plans. It's now easier for companies to enroll employees by default, using that natural "inertia" to produce greater savings rates. And they can offer new products that automatically shift out of riskier investments as the worker ages.

Even so, 401(k) accounts aren't building people much of a cushion. The median value of 401(k) plans belonging to workers approaching retirement is \$56,000 — down from \$78,000 before the Wall Street crash.

And now, just as workers try to fan some life into the dying embers inside their accounts, there's a new problem: Employers are suspending their matching contributions. John Fitzpatrick, a worker at FedEx Office (formerly Kinko's), recalls the day his bosses announced the new policy.

"They said, 'Oh by the way, we're going to pull your 401(k) match,' " Fitzpatrick says.

The move angered him so much, he quit his full-time job.

"For me, that was the writing on the wall, saying they didn't care as much about their employees anymore," Fitzpatrick says.

FedEx is hardly alone. The Pension Rights Center, a consumer advocacy group in Washington, D.C., [keeps track](#) of the companies that have cut or suspended their 401(k) contributions.

Spokeswoman Nancy Hwa says the center is keeping the list to try to keep the companies accountable, in hopes they'll restore the contributions when the economy improves. But she's not optimistic.

"I call it the slippery slope of retirement insecurity," Hwa says. She sees this as the latest step in a 30-year trend of employers using the promise of free, matching 401(k) contributions to shift workers away from traditional pensions.

"It's like the siren song of free money," Hwa says. "But what's happening is that it's becoming the swan song of employers contributing to their employees' retirement."

Reforming The 401(k) System?

The market crisis certainly has given new energy to long-standing criticisms of the 401(k) system. Critics say 401(k) plans are slanted toward the wealthy, because the biggest tax savings are going to people in the highest tax bracket. They also point to the financial management fees — many of them hidden — that eat away at workers'

investments.

"The financial crisis is giving a number of people an opportunity to take out the knives and stab this baby," says Mitchell of the Wharton School. But she's not ready to join the attack.

"It seems to me we really don't have an alternative," she says. "To be quite honest, no major employer in his right mind would start a defined-benefit [pension] plan today. Many of the large companies that have them are trying to terminate them because they simply inflict too much uncertainty on the company and the company's shareholders."

Mitchell believes the 401(k) system can be reformed to encourage workers to invest more and protect them from market swings. Other experts have suggested a hybrid system that would put workers into government-sponsored purchasing pools, in which investors would benefit from lower fees and more professional management.

But that would run counter to what may be the 401(k)'s biggest appeal for many Americans: It puts them in charge.

Roberts, the bank employee in Seattle, says he likes controlling his retirement fund.

"I certainly have a few stocks in my portfolio that made me look like a genius," he says. "And I've got just as many — if not twice as many — that made me look pretty dopey."

But the mistakes don't bother him, he says, because they were his to make. And that's why the 401(k) is probably here to stay. It may not offer American society much of a safety net, but it does offer individual Americans the chance to take their money and be geniuses — or dopes — on their own.

May 21, 2009

[Retirement: Tell Us What You Want To Know](#)

Recent First 



[Allan Whitesel \(zipo\)](#) wrote:

Basically I was very dissappointed in this report, it lacked depth and understanding of the entire 401K issue - I would like you to do a real analysis of this issue starting back to its inception by neocons because the existing investment system had run our of real investment so the 401K was invented to make "common" people think investing was a good "taxed advantaged" investment that they could count on. They and most others including your reporters do not understand that this was a neocon plan to "take" the people's money by continuing to reduce regulation of the Wall Street. This resulted in the .com bust of the 1990's and the recent bust of 2008. Please, please do a detailed, comprehensive, and honest report on this issue including the end result of some one that started their investment program in say 1990 Or 1985 - be honest. Thanks, Allan.

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[Steve Christenson \(scratches\)](#) wrote:

While FEDEX could not afford to match up to 3.5% of its employees 401K contributions, the company still provides its executives with the Retirement Parity Pension Plan. Four executives with total annual compensation of over \$4,000,000 have lump sum retirement in excess of \$6,000,000. If the FEDEX driver has to fund his own retirement, why do the \$4M executives (Who should be able to save for their retirement.) get a special corporate retirement plan? This is a very short summary of FEDEX's Proxy Statement.

Monday, June 01, 2009 10:39:24 PM

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[Larry Winstel \(scary\)](#) wrote:

The 401K is only one of a basket of retirement saving options created by politicians. It depends on who you work for and how politically correct they are. A

lot of small employers offer no way to save. We should get rid of all these plans and social security in favor of a single IRA controlled by the individual. It makes no sense to give your money back to your employer to invest or worse the government to save for you.

Monday, June 01, 2009 9:13:43 PM

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[Adam Coffey \(Adam_C\)](#) wrote:

Like the article mentions, the tax-deferred status on a 401(k) makes it better suited to people on the high end of the tax spectrum. Roth IRAs are greatly preferred for the average American worker over traditional IRAs for this exact reason.

To my knowledge there are only two benefits to a 401(k) over a Roth IRA:

- 1) They have a much higher yearly contribution limit; unlike a Roth, which caps out at \$5,000.
- 2) Employer match! Getting 50-100% yearly return from this alone is amazingly good.

Monday, June 01, 2009 7:59:44 PM

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[MICHAEL LEBOLD \(mykey5553\)](#) wrote:

My views on retirement;

I am 51, a self-employed artist, and gross about \$16,000 a year. I expect to receive a small monthly pension of about \$500 thanks to a 10-year stint teaching art, add to that (if I wait till the age of 70), about \$1100 a month from Social Security (thankyou FDR) and that would account for the whole of my retirement income. In addition to that I have currently \$2000 in US savings bonds, \$700 in a savings account, AND about \$2,400 in coin jars (which represents so far 9 years of whatever change I happen to have in

my pockets at the end of each and EVERY day.

I expect the sum total of these cash reserves to approximately double by age 70...And as of right now, I am carrying NO debt.

My plan is to retire to the Philippines. I have visited there 3 times, the people are warm and welcoming, it is the 3rd largest english-speaking country in the world, the national government has a long-term goal of positioning itself as a 'retirement-haven' for foreigners (there are more certified nurses per-capita than anywhere else), AND it has one of the lowest cost-of-living indexes anywhere.

This meager retirement-plan will allow me to live like a King in a warm and tropical paradise.

Monday, June 01, 2009 7:59:37 PM

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