

Dēmos

THE FAILURE OF THE 401(k)

HOW INDIVIDUAL RETIREMENT PLANS ARE A
COSTLY GAMBLE FOR AMERICAN WORKERS

ROBERT HILTONSMITH

ABOUT DĒMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000.

In 2010, Dēmos entered into a publishing partnership with *The American Prospect*, one of the nation's premier magazines focussing policy analysis, investigative journalism, and forward-looking solutions for the nation's greatest challenges.

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EXECUTIVE SUMMARY

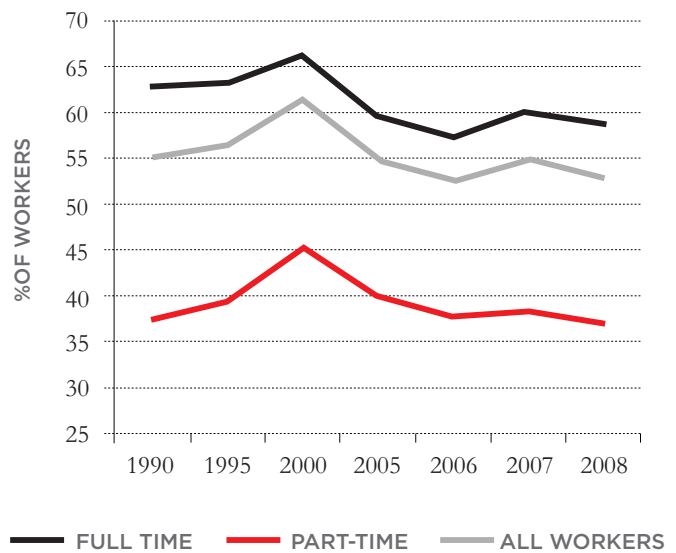
The retirement security of American families has crumbled in the past generation. Workers retiring in the next 20 years can expect to receive only 65 percent during retirement of what they made during their working years, a drop of 16 percent from their parents. Foreboding economic forecasts for flat wages, high unemployment, and rising costs of big-ticket necessities such as education and medical care suggest that young workers today could be on even shakier ground. Only 59 percent of full time workers have access to retirement plans at work, leaving a large part of the workforce to rely solely on Social Security benefits that are inadequate for a comfortable retirement and are under further attack by political opponents.¹ Much of the decline in retirement security is due to the shift in the private sector from providing retirement benefits through traditional pensions, which guaranteed a lifetime stream of income at retirement, to less secure individual retirement accounts, whose benefits vary with the size of employer and employee contributions, and the volatile swings of the stock market.

This report provides a picture of the current state of the U.S.'s private retirement system, and discusses why that system needs reform.

Highlights of the report include:

- A summary of the state of retirement coverage. Of the many workers lacking access to a retirement plan at work, already economically disadvantaged groups—minorities, young people, and low-income workers—have the lowest access rates. Among full-time employees, just 38.0 percent of Latinos, 54.4 percent of workers aged 25-43, and 38.4 percent of workers in the lowest income quintile have access to a retirement plan.
- A description of the many risks to which individual retirement plans expose workers. The significant possibility of outliving retirement savings or losing them to a turbulent market, high fees, or poor investment decisions make 401(k)s and other individual retirement plans unfit to be the private supplement to Social Security.
- An analysis of the large effect that high fees can have on workers' retirement savings. These hidden and opaque charges for investment management by mutual funds can cost an average worker more than \$70,000 over a lifetime of saving. To fix this broken system, the report examines several proposals for private retirement reform. Though all these proposals contain elements that would improve access to benefits, only one, Guaranteed Retirement Accounts, would provide a secure foundation for the dignified retirement that should be the right of all American workers.

ACCESS TO EMPLOYER-SPONSORED RETIREMENT PLANS



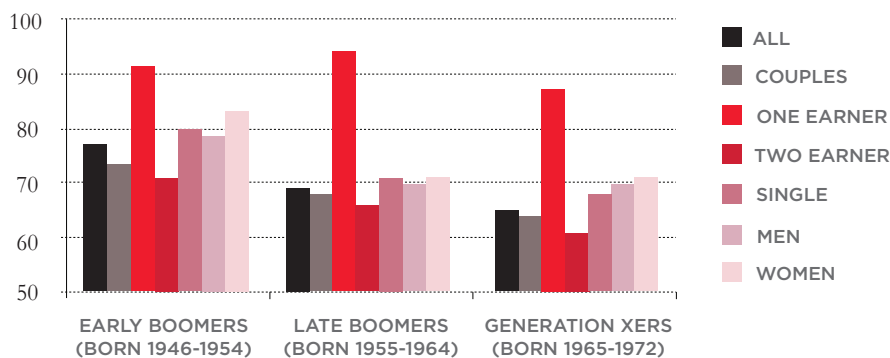
Source: Purcell, Pension Sponsorship

INTRODUCTION

This country was built on the hard work of Americans. Beginning with the creation of Social Security in 1935, we have, as a nation, honored that work with a commitment to security in retirement. Moreover, old age security is a value we all share: we believe that a dignified retirement should be the right of all working Americans. And for generations, we've moved closer to fulfilling that promise. Through a combination of Social Security and private retirement benefits, over the past half century, elderly poverty has plummeted while incomes of the aged have more than doubled. In the past few decades, however, we have begun to veer away from this commitment to our shared values. If we stay the course, we'll retire with less than our parents and our children will retire with less than we did, reversing many of the gains of the past fifty years. This decline, however, is not irreversible. With common sense policies we can restore our commitment to a secure and dignified retirement for all American workers.

The retirement forecast for an average young worker today is much cloudier than it was a generation ago. A worker hoping to retire in 20 or 30 years has a significant chance of being comparatively poorer in their old age than his or her parents. Early baby boomers, or those retiring in the next ten years, can expect in their retirements to subsist on 77 percent, on average, of what they earned during their peak working years; their children, the "Generation Xers", in contrast, will need to survive on just 65 percent of their peak earnings. To

RETIREMENT INCOME REPLACEMENT RATES¹
BY BIRTH COHORT



Source: "Retirements at Risk: The New National Retirement Risk Index" – CRR (2009)

put this in perspective, this means that half of workers in each of these generations will have to subsist on less, a prospect particularly problematic for low-income workers. For example, for a Generation X construction worker who earned \$30,000 yearly during their working life, a retirement income of \$19,500 may very well mean forgoing many comforts or even scrimping on basic necessities.

There are many factors contributing to this predicted decline. Stagnant wages, rising prices of basic goods and services, and shattered home values all point to a more unstable working life for today's young workers and consequently, a more uncertain old age than previous generations. In addition to these trends, a complete upheaval of the private retirement landscape itself has taken place in the past few decades with the shift from traditional pensions to individual retirement plans. This shift has perpetuated the low access to retirement benefits present in the old system, but 401(k)s and other individual accounts come with additional drawbacks for workers—higher risks and costs—that traditional pensions did not share. This combination of low access to benefits with high risks and costs exposes the new mainstays of the contemporary retirement landscape, 401(k)s and similar plans, as inadequate and unsafe vehicles for workers' private retirement savings.

This report examines the causes of this changed retirement landscape it then breaks down the current state of retirement coverage, focusing on those with the least coverage, particularly low-income workers, young workers and people of color. It proceeds to explain the risks and high costs of the current individualized retirement system, and analyzes how they have affected the workforce's retirement prospects. Finally, the report compares various policy proposals to fix the retirement system, and concludes that one proposal, Guaranteed Retirement Accounts, stands out as the best solution.

ⁱ The replacement rate is the percentage of pre-retirement income that a retiree replaces, on average, while retired.

OVERVIEW: TYPES OF RETIREMENT PLANS

In the middle of the 20th century, retirement experts described the primary sources of retirement income—Social Security, private pensions, and personal savings— as a “three-legged stool”: in an ideal retirement system, all three would provide roughly equal income, and together the sources would form a stable base for retirement.² During that period, this metaphor was somewhat appropriate due to the relative generosity of the private pensions then offered. Researchers and academics often call this type of pension a “defined benefit plan”, but they are also known as “annuities” or simply “traditional pensions”, as they will be referred to in this paper. Traditional pensions guaranteed workers a set yearly payment for the rest of their post-retirement life. These pensions were mostly favorable arrangements for employees; the guaranteed income they provided ensured a stable, low-risk retirement.

Employers, however, faced several drawbacks from traditional pensions. By promising their retirees a fixed stream of retirement income, employers absorbed most of the risks and burdens that existed in any long-term investment. So it was no surprise that when Congress created a legal, tax-advantaged means of saving for retirement, employers readily adopted it. Commonly known as the 401(k) (after the section of the tax code that authorizes them) these plans allow workers to defer income taxes on the portion of their salary they save for retirement. These employer-based individual retirement plans, along with personal, non-employer-based retirement accounts, can be collectively referred to as “defined contribution” plans since their balances at retirement are determined by the frequency and size of the contributions to the plans (as well as the interest rate on its investments), rather than by the pre-determined benefit formula of traditional pensions. However, for simplicity’s sake, we’ll refer to this set of plans as “individual retirement plans”. Though these plans differ in several meaningful ways, they generally share both the same basic features and severe drawbacks.

As most Americans in the workforce today know, the old three-legged stool, though never as stable as the metaphor suggests, has largely disappeared. Individual retirement plans have largely replaced traditional pensions as the standard source of private retirement benefits. The three modern sources of retirement income—Social Security, individual retirement plans, and savings—have become far less stable and secure. The retirement income of a traditional pension-less worker retiring today would be more adequately described as a pyramid with three levels or tiers. Social Security comprises the base, and by far the largest, tier. Individual retirement plans make up a smaller second tier and personal savings a tiny third tier at the top. Far from equaling the stability of the three-legged stool, this new retirement pyramid is crumbling and shaky. Many imminent retirees, who have only individual retirement plans to supplement Social Security, will be worse off than their traditional pension-supported parents; many must continue working past age 65 to maintain their accustomed standard of living. According to the Employee Benefit Research Institute, current retirees rely on part-time earnings for over a quarter of their post-retirement income, a share over nine percent larger than a generation ago. If we’re to reverse this trend of increasing old-age insecurity, we must first understand how our once-stable retirement system crumbled so rapidly.

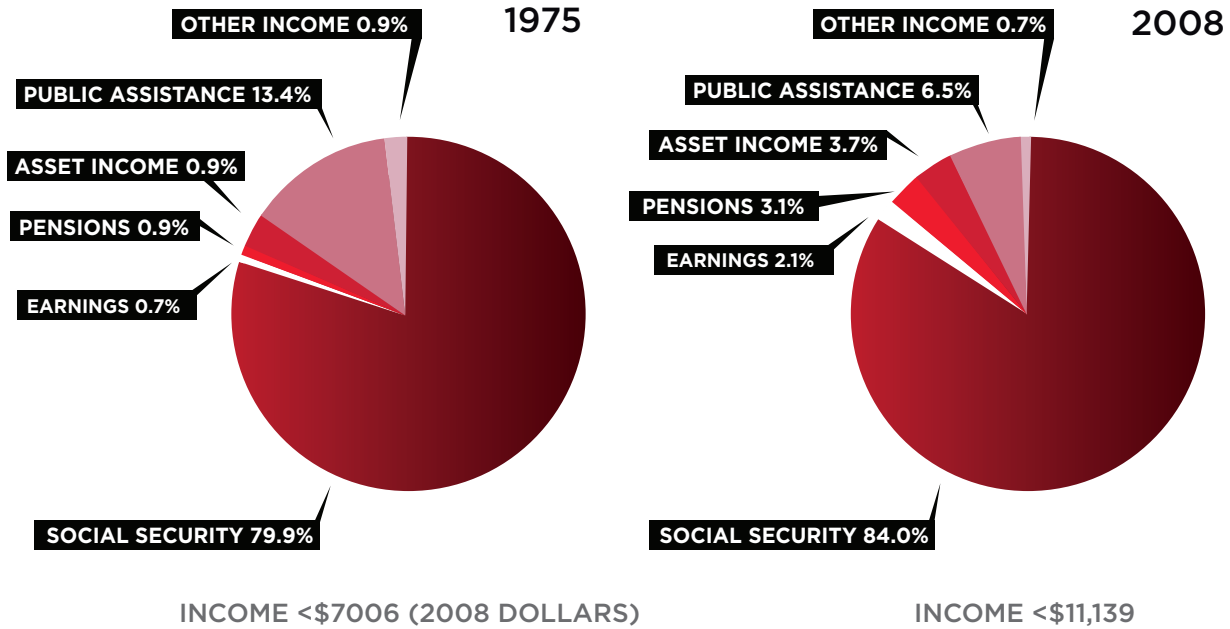
TYPES OF RETIREMENT PLANSⁱⁱ

	TRADITIONAL PENSIONS	401(K)-TYPE PLANS	INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)
COVERAGE	All workers at a workplace or group of workplaces.	Eligible workers at a private-sector workplace or group of workplaces.	Any wage-earning American.
SIMILAR PLANS	Cash Balance Plans	403(b)s (non-profit employees) and 457s (government employees)	Roth IRAs, Keoghs
CONTRIBUTIONS	Tax-deductible, mandatory, by employers. Sometimes “passed on” to the employee in the form of lower wages.	Tax-deductible, optional, by employees, up to \$16,500 ³ . Employers may or contribute up to a certain percentage of a worker’s wages.	Individual, elective, up to \$5000. Tax deductible only up to an income threshold. No employer contributions, in most cases.
INVESTMENT	Funds invested by a financial professional employed by the company or pension	Invested individually from a menu of options, typically including stock, bond, and money market mutual funds. .	Invested individually from a menu of options, typically including stock, bond, and money market mutual funds.
RETIREMENT INCOME	Typically a set percentage of one’s average yearly salary, per year of service. Example: a traditional pension might promise 1 percent of a worker’s average salary over his or her final three years on the job, multiplied by years of service. So, someone who worked for a company for 30 years and made an average of \$60,000 over their final three years would receive a pension of \$18,000 per year.	Payouts determined by the account’s balance at retirement. Participants can make regular withdrawals or take a lump-sum disbursement.	Payouts determined by the account’s balance at retirement. Participants can make regular withdrawals or take a lump-sum disbursement.
PORTABILITY	No portability. Benefits tied to a particular employer or pension plan.	Some portability. 401(k)-type plans are tied to a particular employer, but balances can be rolled over penalty-free into new 401(k)s or IRAs.	Full portability. Benefits tied to individuals.
WITHDRAWALS	Prohibited. Benefits only available at retirement.	Allowed. All withdrawals are taxed as income, and those before age 59 ½ are penalized an additional 10 percent ⁴	Allowed. All withdrawals are taxed as income, and those before age 59 ½ are penalized an additional 10 percent. ⁱⁱⁱ

ii A summary of the most common types of retirement plans. Other individual retirement plans include profit sharing plans, money purchase plans, Simplified Employee Plans, SIMPLEs, EXOPs and Keoghs.

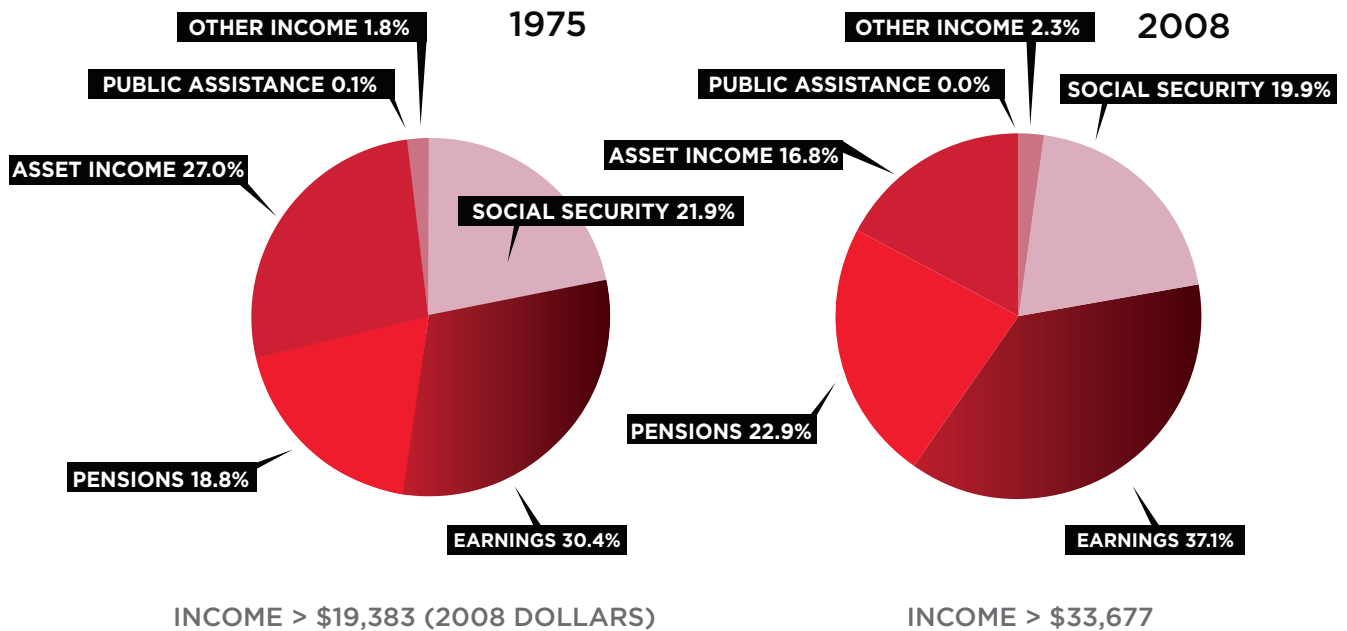
iii Roth IRAs have a reverse taxation structure: contributions are taxed while withdrawals are tax-free.

SOURCES OF INCOME FOR RETIREES, AGE 65+, BOTTOM INCOME QUARTILE



Source: Purcell, "Income of Americans Aged 65+, 1968 to 2008", 2009

SOURCES OF INCOME FOR RETIREES, AGE 65+, TOP INCOME QUARTILE



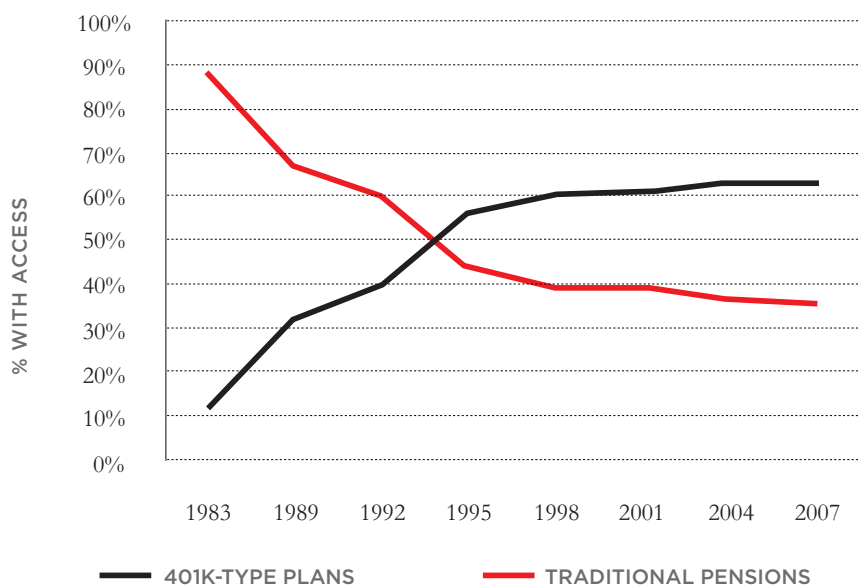
Source: Purcell, "Income of Americans Aged 65+, 1968 to 2008", 2009

RETIREMENT SECURITY'S DOWNWARD SPIRAL

The retirement prospects of the American worker were on the rise in the middle of the 20th century. The percentage of private-sector workers covered by a traditional pension increased from 23 percent in 1950 to almost 63 percent in 1979, while Social Security coverage simultaneously expanded to nearly all workers.⁵ These pensions provided a comfortable retirement: workers who retired between 1988 and 2000—or in other words, those who worked the majority of their careers while the traditional pension system was at its height—replaced, on average, 93 percent of their pre-retirement income.⁶ The stable three-legged stool of traditional retirement income began to wobble, however, with the passage of the Revenue Act of 1978. The Act included a seemingly innocuous provision to amend section 401(k) of the IRS tax code to allow private sector employees to set aside a portion of their salary into an approved account as deferred compensation, and in return defer paying taxes on that income.⁷

HOW THE AMERICAN RETIREMENT TRANSFORMED IN UNDER A GENERATION

**WORKPLACE ACCESS TO TYPES OF RETIREMENT PLANS
AMONG WORKERS WITH ACCESS TO A PLAN**



Source: CRR, "An Update on Private Pensions, 2007"

Since their inception in 1978, individual retirement plans have significantly changed the private retirement landscape. Though the overall percentage of private-sector workers with access to any type of employer-sponsored retirement plan has remained relatively stable, declining slightly from 63 percent among full-time workers aged 25-64 in 1979 to 58 percent today, the percentage of workers covered by each category of retirement plan—traditional pensions and individual retirement plans—has shifted dramatically.⁸ As shown in Figure 1, the percentage of covered private sector workers with defined benefit coverage has decreased from 88 percent in 1983 to 36 percent today, while individual retirement plan coverage has increased from 12 percent to more than 63 percent in the same period.⁹

The shift away from traditional pensions can be traced to a variety of factors: changing regulation, the sectoral composition of the U.S. labor market, and decreases in union coverage and wages all contributed to their decline. Since their introduction, restrictions on individual retirement plans have been consistently lifted,

while deliberately burdensome regulation of traditional pensions has steadily increased, in part to make 401ks more attractive than traditional pensions to employers.¹⁰

The decline in unionization of the U.S. workforce has contributed to the dramatic reconfiguration of the private retirement system.¹¹ This connection between unions and traditional pensions is clearly visible in current access rates—68 percent of unionized workers in 2010 had access to traditional pension plans at work, while only 16 percent of non-unionized workers did. Employees who belong to a union also have 22 percent higher access to a retirement plan of any sort, and participate in those plans 20 percent more often. As union membership fell dramatically in the 1980s and 1990s, workplace access to traditional pensions also precipitously dropped.¹²

Another trend driving the move away from traditional pensions has been the shift in the U.S. labor market away from manufacturing and towards service industry jobs.¹³ As the manufacturing sector, which had high rates of access to traditional pension, lost jobs to overseas competition in the 1980s and 1990s, the service and information technology sectors, with much lower traditional pension access, grew enormously. The data on current retirement coverage confirms this trend: 26 percent of production workers currently have access to a traditional pension through their work, much greater than the slim 8 percent of service workers who do (see Table 1 below).

The old private retirement system of traditional pensions was far from perfect—at its height, roughly the same percentage of private industry workers had access to retirement benefits as today. However, traditional pensions were better for workers in several important ways: they ensured that employers contributed to

Employers' retirement contributions per worker fell from an average of \$2,140 in 1981 to \$1,404 in 1998

employees' retirement, and insulated those employees from a variety of risks. With no contribution requirements, individual retirement plans allow employers to contribute far less (or even nothing) to workers' retirements than under the old traditional pension system. Employers' retirement contributions per worker fell from an average of \$2,140^{iv} in 1981 to \$1,404

in 1998—a 34 percent decline.¹⁴ In addition, as we'll explain in detail in the following sections, individual retirement plans expose workers to many risks—market, investment, contribution, leakage, and longevity risks—that were previously borne by employers under the old system. These risks, combined with the high fees charged by the financial firms that administer individual retirement plans, combine to make these plans unsuitable as the primary supplement to Social Security for income during retirement.

^{iv} All figures comparing earnings or income of different generations have been adjusted for inflation.

THE IMPACT OF THE SHIFT

The shift from traditional pensions to individual plans has significantly endangered the gains our country has made in reducing old-age poverty since the introduction of Social Security. This shift is especially troublesome because Social Security alone cannot meet the retirement needs of workers; it was never intended to be the sole income source for the elderly. As Roosevelt said himself at the signing ceremony for the Act,

"WE CAN NEVER INSURE ONE HUNDRED PERCENT OF THE POPULATION AGAINST ONE HUNDRED PERCENT OF THE HAZARDS AND VICISSITUDES OF LIFE, BUT WE HAVE TRIED TO FRAME A LAW WHICH WILL GIVE SOME MEASURE OF PROTECTION TO THE AVERAGE CITIZEN AND TO HIS FAMILY AGAINST THE LOSS OF A JOB AND AGAINST POVERTY-RIDDEN OLD AGE."

—President Roosevelt upon signing the Social Security Act

The average Social Security retirement benefit is \$1,182 per month¹⁵, and the median monthly benefit for the lowest income quintile is just \$750.¹⁶ The latter figure is below the federal poverty threshold of \$857.45 monthly, which has long been criticized by academics and the policy community as significantly underestimating the true minimum income necessary for even the basics of life. And a significant proportion of retirees—21 percent of retired couples and 43 percent of retired single adults—already rely on Social Security for more than 90 percent of their income during retirement.¹⁷ Unless Social Security is expanded, a retirement system that relies on Social Security to provide the majority of retirement income for seniors would leave many seniors unable to meet even their basic needs.

In short, most workers need a supplement to Social Security to maintain anything close to the standard of living they enjoyed pre-retirement. And, as we show in the following sections of this paper, individual retirement plans are vastly inadequate to serve as this supplement. Their high fees, lower employer contributions, and risky, complex investment options make them wholly unsuitable as the primary vehicle for private retirement savings. Worse yet, a substantial portion of the workforce does not even have access to them. As we detail the state of coverage and the risks and inefficiencies associated with individual retirement plans, it becomes apparent that a new solution is needed to ensure the comfortable, secure retirement that should be the right of all hard-working Americans.

THE WINNERS AND LOSERS IN THE NEW AMERICAN RETIREMENT SYSTEM

Overall, 59 percent of private industry workers have access to employer-provided retirement benefits of any sort. The availability of private retirement benefits varies widely by nearly every conceivable category: industry, race, income, employer size, and job status. For example, only 45 percent of workers in the service industry, one of the nation's fastest growing sectors, have access to retirement benefits, while 80 percent of management and professional workers do. Similarly, while 84 percent of Americans in the highest income quartile have access to retirement benefits, only 35 percent of the very lowest paid workers do. Clearly, our current retirement system benefits some far more than others.

ACCESS BY INDUSTRY

Delving deeper into the current snapshot of private retirement, much of the variation in coverage between different industries, company sizes, and ethnicities can be explained by lower unionization rates and lower

CHARACTERISTICS	ACCESS	PARTICIPATION	TAKE-UP RATE*
MANAGEMENT, PROFESSIONAL, AND RELATED	80%	69%	87%
SERVICE	45%	26%	57%
SALES AND RELATED	67%	44%	66%
OFFICE AND ADMINISTRATIVE SUPPORT	74%	60%	81%
NATURAL RESOURCES, CONSTRUCTION, AND MAINTENANCE	68%	53%	79%
PRODUCTION, TRANS- PORTATION, AND MATERIAL MOVING	69%	53%	77%

wages among these sectors, firms, and ethnic groups. The service industry, which has both the lowest wages and lowest union coverage, and as a result, the least power to bargain for better benefits, has the lowest rate of access to benefits at 47 percent - nearly 50 percent lower than the next lowest sector. Production (i.e. manufacturing) workers, who have a relatively high union coverage rate, also have the second-highest access to traditional pensions, the type most often collectively bargained for. Management/professionals have both the highest average wages and also the lowest unemployment rate, a result of high demand for these educated workers. So it is unsurprising these they have the

Source: BLS, "National Benefit Survey," 2009

* The take-up rate is the percentage of workers with access to retirement plans who choose to participate in those plans.

highest retirement coverage, as employees must offer enticing benefit packages to attract quality employees in this highly competitive sector.

ACCESS BY INCOME, SIZE OF FIRM AND ETHNICITY

TABLE 2. RETIREMENT BENEFITS: PRIVATE INDUSTRY WORKERS, BY WAGE PERCENTILE 2008

WAGE PERCENTILES:	ACCESS	PARTICIPATION	TAKE-UP RATE
LOWEST 25 PERCENT	38.4%	27.7%	72.1%
SECOND 25 PERCENT	59.2%	49.7%	84.0%
THIRD 25 PERCENT	67.3%	60.1%	89.3%
HIGHEST 25 PERCENT	72.9%	68.6%	94.1%

Source: "Pension Sponsorship and Participation" 2009

The connection between lower wages, bargaining power, and less access to retirement benefits is very clearly illustrated by the differences among wage percentiles. The highest 25 percent of earners are covered at nearly double the rate of the lowest 25 percent, and have five times more access to traditional pensions. Less bargaining power also explains the widely varying coverage rates between different-sized employers. Smaller employers are less likely to be unionized which, combined with 401k-plan start-up costs that are higher than many of these small businesses can afford, leads to 44 percent lower retirement coverage than at the largest firms. The same story explains the gaps in coverage by race as well. Latino workers' dramatically lower coverage rates are also largely due to working for industries with low access rates, low wages, and frequently having little to no bargaining power.¹⁸

TABLE 3. RETIREMENT BENEFITS: FULL-TIME PRIVATE INDUSTRY WORKERS, BY SIZE OF EMPLOYER 2008

NUMBER OF WORKERS	ACCESS	PARTICIPATION	TAKE-UP RATE
1 TO 24 WORKERS	29.3%	25.8%	88.1%
25 TO 99 WORKERS	53.7%	45.9%	85.5%
100 OR MORE WORKERS	73.5%	63.6%	86.5%
ALL FIRMS	59.0%	51.1%	86.6%

Source: "Pension Sponsorship and Participation" 2009

TABLE 4. RETIREMENT BENEFITS: FULL-TIME PRIVATE INDUSTRY WORKERS, BY RACE 2008

RACE/ETHNICITY	ACCESS	PARTICIPATION	TAKE-UP RATE
WHITE	56.4%	43.7%	77.4%
BLACK	54.6%	38.2%	69.9%
HISPANIC	36.8%	25.7%	69.8%

Source: "Pension Sponsorship and Participation" 2009

ADEQUACY OF INDIVIDUAL RETIREMENT SAVINGS

Even for the two-thirds of the workforce fortunate enough to have access to retirement benefits at work, a comfortable retirement is far from assured. Roughly half of the entire workforce, or 69 percent of workers with access to benefits, have access only to an individual retirement plan and as data from the Employee Benefits Research Institute shows, the balances in those plans are generally far lower than the amount required for a prosperous old age.

The median 401(k) balance in 2008 was \$12,655, dropping 33 percent from 2007 as the stock market fell

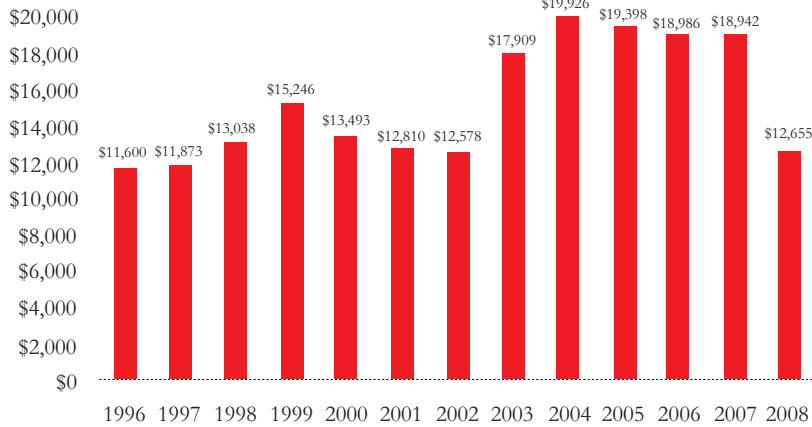
precipitously.¹⁹ A typical worker with retirement savings often has more than one retirement account (from switching jobs, etc.) but workers' total retirement savings are still inadequate. A worker who makes the national median salary, does not have a traditional pension, and saves the recommended amount^v should have an account balance of \$45,000 by the age of 40, and nearly \$250,000 by the age of 60.²⁰ However, according to 2007 data from the Survey of Consumer Finances, the median

family whose head of household is age 35-44 has a total balance, over all their retirement accounts, of just \$36,000. Households approaching retirement are far behind, having saved, on average, \$98,000. The numbers clearly show that most participants are far behind in their retirement savings and consequently at risk of an economically insecure retirement.

Though low access to retirement benefits for the most disadvantaged segments of our society and dangerously low retirement savings by most individual retirement plan participants may be reason enough to suggest that serious policy change is needed, the problems with individual retirement plans run far deeper than simple lack of coverage and low savings. Even for those workers "lucky" enough to have access to an individual

retirement plan, the reason for the low account balances described above is far more complex than simply low savings rates. In fact, as detailed below, a combination of high fees, uncertain returns, and high individual risk make these plans a bad deal for many American workers.

MEDIAN 401(K) ACCOUNT BALANCE



Source: "401(k) Plan Asset Allocation", 2009

TABLE 5. MEDIAN FAMILY RETIREMENT ACCOUNT BALANCE

AGE OF HEAD OF HOUSEHOLD	TOTAL BALANCE IN ALL ACCOUNTS
LESS THAN 35	\$10,000
35 TO 44	\$36,000
45 TO 54	\$67,000
55 TO 64	\$98,000
65 TO 74	\$77,000
75+	\$35,000

Source: Bucks et al, "Changes in U.S. Family Finances from 2004 to 2007", 2009

^v The percentage of workers with access to retirement plans who participate in them

A RISKY BET FOR WORKERS

Now more than ever, in this time of roller-coaster stock prices, high unemployment, and uncertainty about the country's economic future, the average worker needs a guaranteed, secure stream of retirement income. However, for those fortunate enough to have coverage, the dominant type of private retirement savings—individual retirement plans—offer neither stability nor security. Workers invested in individual retirement plans bear the brunt of all varieties of risks: they risk losing their savings to poor investment decisions (investment risk); high fees (contribution risk); a turbulent market (market risk); outliving their retirement savings (longevity risk); and several other hazards. Taken together, these risks clearly raise serious questions about the suitability of individual retirement plans to form the second tier of retirement savings, above Social Security.

MARKET RISK

The financial crisis and following recession of the past few years has made the magnitude of the effect of market risk on retirement savings crystal clear. During the stock market plunge of 2008 and 2009, individual

A worker who retired at the height of the last big stock market surge in 2000 would have had over 50 percent more to live on during retirement than if she had retired in the depths of the current recession last year.

retirement plans lost a total of \$2 trillion dollars in value, while the average 401(k) participant lost over 1/3 of their savings.²¹ This volatility in the stock market, in which the majority of 401(k) funds are invested, has an enormous impact on both individuals' lives and the economy as a whole. Individuals who wish to retire during a market downturn must either do so with significantly reduced retirement income or postpone retirement, which in turn prevents younger workers from entering the labor force

and worsens the already high unemployment that accompanies such downturns. By our calculations, if our hypothetical worker (as described on page 17) had retired at the height of the last big stock market surge in 2000, she would have had over 50 percent more to live on during retirement than if she had retired in the depths of the current recession last year. To make matters worse, workers actually tend to increase their retirement savings in response to a market crisis, a behavior which also deepens recessions.²²

A more conservative investment strategy, including so-called "life-cycle investing, in which account investments gradually become weighted more heavily towards low-risk assets as an investor ages, does reduce some of the market risk, but it also reduces the potential rewards. The reward reduction is particularly problematic for low-income workers, who are understandably more risk-averse. Life-cycle investing reduces average 401k-type plan balances by over \$300,000 (at retirement) over an all-stock strategy assuming good returns, but reduces the losses for the unluckiest investors by only \$40,000 in times of bad returns.²³ Pooling retirement assets, for example, through a traditional pension, is a far more effective way to reduce market risk; large pension funds can afford to invest less conservatively, and can achieve higher rates of return. Traditional pensions can achieve the same level of retirement benefits at 46 percent lower costs per participant, in large part due to higher returns on less conservative investments.²⁴

INVESTMENT RISK

Another related disadvantage of individual retirement plans is investment risk—the possibility of participants making poor investment decisions. Though proponents of individualized plans often tout the ability to make individualized investment choices as an advantage of such plans, the reality is that most plan participants are extremely ill-equipped to make complicated investment decisions, having to choose from among often inscrutable options. For example, in one study, 84 percent of retirement plan participants thought that higher mutual fund fees guaranteed better performance²⁵, even though multiple studies have shown that there is no relationship between the two.²⁶ In addition, participants tend to pick a poor mix of assets in their portfolios, often adopting an all-or-nothing approach to risk. Overall, 56 percent of individual retirement assets are invested in stocks—which leaves most account-holders exposed to large amounts of risk. Twenty-one percent of participants have more than 80 percent of their assets in stocks and other risky assets, far too much for anyone over 30. An additional 38 percent have none invested in stocks, a far-too-conservative allocation for any age.²⁷ Though allowing individuals to make individualized investment decisions may seem to conform to our nation’s ideals of freedom and individual choice, in reality, leaving the investment decisions up to financial market professionals would result in higher returns and lower risk.

LONGEVITY RISK

Participants in individual retirement plans are also exposed to longevity risk, or the possibility that they outlive their retirement savings. Though there is widespread knowledge of increasing life expectancies, most people underestimate their probabilities of living to a ripe old age.²⁸ Individual retirement plans, which offer only lump-sum retirement savings, require workers to accurately plan for the number of years of retirement or risk years of relying solely on Social Security and, if fortunate enough, their families for support, a less-than-ideal arrangement. An ideal retirement system, one where assets of savers were pooled and invested jointly, would eliminate this risk, as the additional benefits paid to long-lived beneficiaries will be balanced by those who have shorter-than-expected retirements. Participants in such plans can afford to save less, as they will not need to individually hedge against the possibility of a longer-than-expected retirement.

LEAKAGE RISK

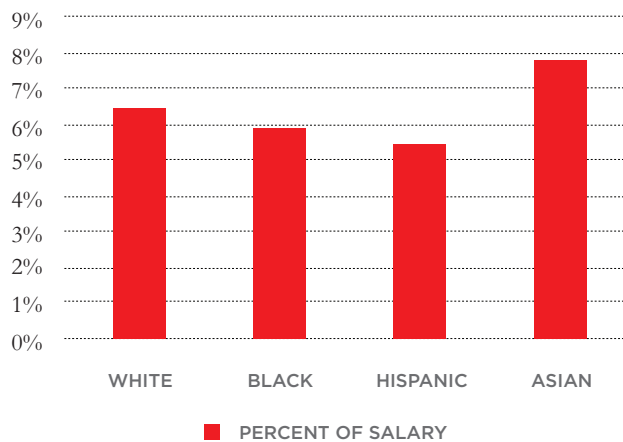
One seeming advantage of individual retirement plans is that they give participants control over their accounts, allowing individuals to withdraw balances—or sometimes take out loans against account assets—to pay for unexpected large expenses (health care bills, a down payments on a house, etc.) that everyone faces in the course of their life. However, these withdrawals are themselves another risk, commonly referred to as leakage risk, that can significantly reduce retirement plan balances at retirement. The GAO estimates 15 percent of participants in individual retirement plans either cashed out some or all of their assets or took out a loan against the balance in 2006.²⁹ Such withdrawals sapped nearly \$84 billion from retirement accounts that year, a number which surely rose during the recent recession. Because any retirement savings relies on the long-term compounding of interest on investments, an early withdrawal or cash-out could effectively set back an individual’s retirement savings by several years, which in turn could reduce the account’s balance at

retirement by 10 percent or more.³⁰ Compounding this effect, withdrawals from most individual retirement plans made before age 59 ½ are subject to a 10 percent penalty tax, meaning they are taxed at a 10 percent higher rate than an individual’s normal income. Retirement plans that promise a fixed yearly payment at retirement, such as Social Security or traditional pension, do not share this risk, as workers are prohibited from making withdrawals.

CONTRIBUTION RISK

Finally, there is contribution risk. Simply put, contribution risk is the risk that workers contribute too little to their retirement over the course of their lifetimes. Given that retirement income adequacy is already

**AVERAGE PERCENT OF SALARY
CONTRIBUTES TO 401(K)S BY RACE
2001-2007**



Source: Munnell, Sullivan, “401k Plans and Race”, 2009

threatened by the lower employer contributions that generally accompany individual retirement plans, contribution risk is quite significant, especially for low-income workers. Even for those fortunate enough to have access to a retirement plan, take-up rates^{vi} range from 45 percent of the very poorest workers to 90 percent of the richest. In addition, contribution rates—and consequently, account balances—among participants are far below what is needed for a secure and adequate retirement. Retirement account balances for participants of all ages average between 20 to 40 percent of the amount needed.³¹

Workers contribute too little to retirement plans for three primary reasons: either they’re simply not earning enough, they don’t trust retirement plans and the financial markets in general, or simply don’t have the financial literacy to understand how plans work or how much to contribute.³² Employees themselves believe the first reason, lack of income, is the also the largest. In a 2007 poll commissioned by the Rockefeller foundation, 56 percent of respondents said that the reason they were not saving for retirement was because they couldn’t afford to save.³³ Figures on contribution rates by race confirm this claim; those for Latinos and African-Americans, who have lower average incomes, trail behind higher income whites and Asian-Americans. Given that a majority of Americans believe that the current retirement system is worse than that of previous generations and the inherent volatility of the stock market, this lack of trust is unsurprising and perhaps warranted.³⁴ A safe and secure retirement system would give workers confidence that their investments will still be there for them at retirement.

^{vi} The percentage of workers with access to retirement plans who participate in them

THE HIGH COSTS OF BAD RETIREMENT POLICY

Not only are individual retirement plans an extremely risky retirement bet for workers, but the plans saddle them with a further disadvantage—extremely high fees charged by service providers at all levels of the private retirement industry. The fees significantly drag down returns, making these already risky accounts very costly to participants as well. In fact, over a lifetime of saving for retirement, they can cost an average worker as much as \$70,000. Service providers are able to charge such high fees because there is very little competition in the market for retirement services. This limited competition, in turn, is primarily caused by opaque relationships between shadowy service providers, low levels of financial education among retirement plan administrators, and even lower levels among participants.

Over half of individual retirement plan assets are invested in mutual funds, which charge a variety of fees to both employers and employees for their services. These fees, which range from charges for account auditing and recordkeeping to levies for plan participant education and communication, are shared between employees and employers. Employees, however, pay the largest of these fees: investment management charges for investing plan participants' assets. The fees, which on average range from 0.5 percent to 2.5 percent, are taken “off the top” of the returns earned by the fund's investments before compensating investors.³⁵ In a truly competitive market, the fees charged by these funds would decrease as the scale of the mutual fund market grew. However, as the assets managed by the industry grew in 1999 to 21 times their size two decades earlier, overall management fees rose 29 percent. This positive correlation between number of firms and average fees flies in the face of the laws of standard microeconomics, suggesting that other factors must be preventing market competition.

Why, then, have fees grown even as the industry should have been becoming more competitive? The answer certainly does not lie in any connection between fees and performance: as mentioned above, many studies

Fees would have cost a worker retiring in 2000 at the height of the stock market surge approximately \$71,408

have found no relationship between the two.³⁶ Instead, the answer to the mutual fund industry's ability to charge high fees lies in standard economic theory. When consumers of a product do not have enough information or education to choose rationally among competing products, suppliers can charge higher prices. And that's precisely the story here: unincentivized

plan sponsors^{viii}, who shoulder only a small fraction of the costs, and undereducated plan participants often do not choose wisely between often opaque and seemingly-identical mutual funds and plan providers. Plan participants are at the largest disadvantage: they have only a menu of funds selected by their plan sponsors to choose from, and very little information about how the fees the funds charge will impact returns, much less what level of future returns participants can expect. Plan sponsors fare only slightly better. For many employees in charge of retirement plans at small firms, their role as a plan administrator is only a small part of their job responsibility. These sponsors are often not trained financial professionals, and so often do not have the knowledge necessary to choose the best plan provider, or the best funds to include in their plan. Between undereducated consumers and less-than-transparent disclosure of fees, mutual funds can essentially

set the prices for their services and pass all the cost to the consumer—the average individual retirement plan participant.

This lack of competition in the industry has resulted in massive profits for mutual funds at the expense of the average worker. In 2009, the industry had almost \$9 trillion in individual retirement account assets under management,³⁷ and made over \$100 billion dollars in charges and fees. This massive windfall translated to an 18.8 percent average profit margin for the mutual fund industry in 2003, higher than the financial industry average of 14.9 percent and far eclipsing the S&P 500's 3 percent.³⁸ Traditional pensions, or any alternative retirement plan where investments are pooled and professionally managed, costs per participant are far lower. In fact, the National Institute for Retirement Security has found that the percentage of an employee's payroll that would have to be contributed to a pension (by employee, employer, or a combination of the two) to replace 80 percent of his or her income at retirement is 46 percent lower (22.9 percent of payroll versus 12.5 percent) for traditional pensions than for individual plans. Much of this cost savings, 57.5 percent, comes from the superior returns earned by traditional pensions due to their lower fees.³⁹ Clearly, individual retirement plans are neither an efficient nor safe vehicle for workers to depend on for a large portion of their retirement savings.

Individual retirement plans are not only costly for workers, but for the federal government as well. Retirement tax breaks, created to incentivize households to save for retirement, cost the government over \$130 billion in lost tax revenue in 2009.

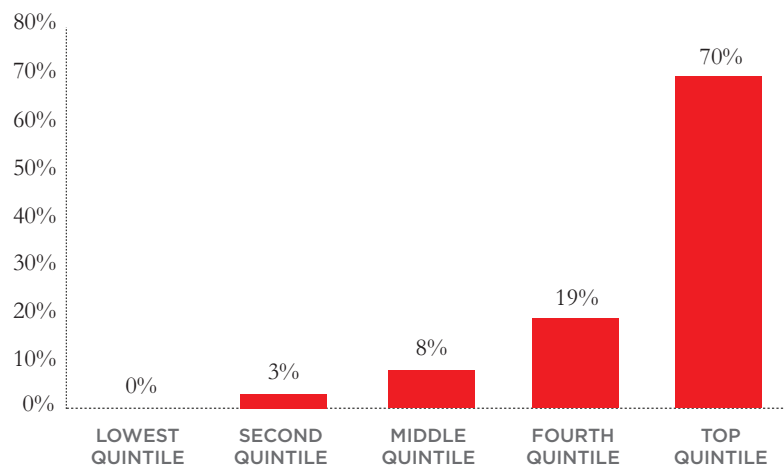
“A LITTLE OFF THE TOP” ADDS UP TO A BIG HAIRCUT

While a half or one percent lower returns may not seem like a lot, over a lifetime of savings and compounding balances, they can easily cost an average worker as much as 20 percent of their potential retirement income.

To come up with this number, we took the case of a worker who earns the median income every year from their first full-time job at age 25 to their retirement at 65. Though this “ordinary worker” may be in one sense statistically average, they are far from typical. Many workers experience significant drops in their income over the course of a lifetime as they suffer through unemployment and economic downturns, or cut back on their hours to take care of their children or parents.

Based on estimated contribution rates, we assume that this “average” worker saves between 5 and 8 percent of his or her salary over their career⁵⁰, and invests these funds in an equal mix of stocks and bonds. We do not take into account any employer contributions; the fee estimate is simply intended to reflect the returns lost from an employee's own savings. Finally, we presume average fees of 0.77 percent on bond mutual funds and 1.34 percent on stock mutual funds. We then calculated the cumulative lifetime fees paid by workers who retired between 1987 and 2009. The total lifetime impact of these fees varies widely depending mostly on the average stock market returns, but was significantly large across the board. Fees would have cost a worker retiring in 2000 at the height of the stock market surge approximately \$71,408, while a worker who retired in 2009, in the midst of the largest market slump in a generation, would have still lost \$53,229.

TAX BENEFITS FOR INDIVIDUAL ACCOUNT PLANS BY, INCOME QUINTILE



Source: Burman et al. (2004).

Contributions to most individual retirement plans are made “pre-tax”: savers pay no taxes on those contributions until they are withdrawn. These tax breaks could be justified on grounds of equity if they in fact benefitted households across the income spectrum. However, analysis of the distribution of retirement tax breaks shows that only the households that have the most disposable income (and would be saving for retirement even without the credits/deductions) are receiving these benefits. Over 70 percent of the tax breaks go to households in the highest income quintile: households making over \$88,000 per year. Spending over \$130 billion to subsidize wealthy taxpayers is a vastly inefficient use of federal funds.

vii The employee(s) at a firm responsible for choosing and overseeing the firm’s retirement plan provider.

A BETTER RETIREMENT FOR ALL: POLICY PROPOSALS

Workers in this country, one of the richest in the world, deserve to enjoy a safe, secure retirement after a lifetime of hard work. The current system of individual retirement plans meets neither of these criteria. Workers' retirement prospects rise and fall with the swings of the stock market, and their retirement savings are drained by the high fees and confusing investment options of most plans. The recent recession has made the vulnerabilities of our current system even more apparent, as millions of workers were required to postpone their retirements as their account balances plunged, and many older workers who lost their jobs and were unable to find new ones have been forcibly "retired" with far less retirement income than they'd either planned for or hoped. The current system does not simply need minor tweaks; it is completely broken. The once secure second tier of retirement, the traditional pension, that many workers once relied on for a secure, guaranteed supplement to Social Security is becoming a relic of the past. A new, secure, "second tier" of retirement needs to be created to replace the traditional pension, and 401(k)s and other individual plans need to be relegated back to their originally intended role as accounts designed for supplemental retirement savings.

To help spell out the necessities of any adequate retirement reform, Retirement USA, a coalition of organizations (including Demos) concerned about the future of retirement in our country, has enumerated twelve principles that any retirement reform should satisfy to be a sufficient replacement for the traditional pension. Three of these are "core principles", vital aspects of any retirement reform-- universality, security, and adequacy. Given the current level of and political threats to future Social Security benefits, any implemented reform must be universal: every worker should be covered by a retirement plan that supplements Social security. In order for that account to be a secure place to save, the account must guarantee an income stream for the lifetime of each retiree, such that no individual worker has to worry about outliving their retirement savings or risk seeing their income vacillate with every financial market plunge. And to ensure that any policy reform provides adequate income to meet a worker's pre-retirement standard of living, both employers and employees must be required to contribute to the account. Given falling wages and rising costs of essentials such as health care, employers need to once again share the financial burden of workers' retirements.

Despite the higher costs to employers from any mandated retirement contribution, employers have a stake from retirement reform as well. Companies with individual retirement plans wishing to offer early retirement are generally forced to come up with a large enough "retirement bonus" to entice workers to retire early; a bonus which would likely have to be larger than normal to convince workers whose retirement plans have been ravaged by falling share prices to retire during downturns. On the opposite side of the coin, older workers with individual retirement plans tend to retire en masse during peaks in the market while their retirement plan balances are at their peaks, making it even more difficult for employers to manage their workforces. Additionally, many employers are in favor of reform. A new survey of employer retirement plan administrators shows that nearly half are not satisfied with the current system.⁴¹ Of those surveyed, 56 percent of employers believe that their employees will not have enough retirement savings to maintain their

standard of living in retirement. To address this, 63 percent of employers favor mandating additional personal savings, a key element of any proposal for reform.

There have been several proposed policies to reform the retirement system in the past from all sides of the political spectrum. Four proposals have received the most attention: The Urban Institute’s “Super Simple Savings Plan”, the ERISA Industry Committee’s “New Benefit Platform for Life Security”, the Obama administration’s “Automatic IRA” proposal, and the Economic Policy Institute (EPI) and Bernard Schwartz Center for Economic Policy Analysis at the New School (SCEPA)’s “Guaranteed Retirement Accounts”⁴². These proposals come from leading academic, policy and advocacy leaders and have all been evaluated in reports from the GAO⁴³ and the White House.⁴⁴ All four proposals, summarized below, represent improvements over the current retirement system: all would likely expand coverage to a portion of the 40 percent of the workforce currently without access to a retirement plan. However, in our analysis, only one proposal—Guaranteed Retirement Accounts-- satisfies all twelve reform principles outlined by Retirement USA and could serve as a true successor to the traditional pension as workers’ second tier of retirement savings. The three other proposals each lack several vital features or requirements that would ensure universal, secure, and adequate retirement coverage.

MOST PROPOSALS OFFER ONLY PARTIAL SOLUTIONS

In their attempt to fix the retirement security crisis, the Obama administration has proposed a voluntary system of individual retirement accounts under which workers without access to a retirement plan through their employer would be automatically enrolled in a Roth IRA with a default contribution rate of 3 percent.⁴⁵ The “Automatic IRA” proposal also includes a government matching contribution of up to \$500 and a default investment mix for accounts. While the Auto IRA is a marginal improvement over the current system, the plan does not fix any of its deep fundamental flaws. With no required employer contribution, the proposal would (with a small assist from the government) still force workers to shoulder nearly the entire burden of saving for retirement out of their wages, which have stayed stagnant or fallen for most while the costs of basic living have risen enormously. In addition, by opting to use Roth IRAs as its vehicle for retirement savings, the Auto IRA does nothing to moderate any of the drawbacks—the variety of risks, high fees, and confusing investment options— of those plans that make them so unsuitable to be the primary supplement to Social Security. The few steps to improve the current system—improving transparency of fees and investment options and reducing conflicts of interest within the retirement sector—fall far short of the comprehensive reforms necessary to transform individual retirement accounts into secure and adequate means for retirement savings. The ERISA Industry Committee’s (ERIC) “New Benefit Platform” calls for competitive independent benefit administrators to administer health and retirement plans, including both existing types of individual plans (401(k)s, IRAs, etc.) and new types. The most comprehensive of these new types is the Guaranteed Benefit Plan (GBP). The promising features of the GBP include benefits payable only as streams of payments or annuities, investments protected against net losses, and a minimum investment credit for each account.

RETIREMENT USA'S PRINCIPLES FOR RETIREMENT

CORE PRINCIPLES

UNIVERSAL COVERAGE. Every worker should be covered by a retirement plan in addition to Social Security. A new retirement system should include all workers unless they are in plans that provide equally secure and adequate benefits.

SECURE RETIREMENT. Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.

ADEQUATE INCOME. Everyone should be able to have an adequate retirement income after a lifetime of work. The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

SUPPORTING PRINCIPLES

SHARED RESPONSIBILITY. Retirement should be the shared responsibility of employers, employees and the government.

REQUIRED CONTRIBUTIONS. Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower income workers.

POOLED ASSETS. Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.

PAYOUTS ONLY AT RETIREMENT. No withdrawals or loans should be permitted before retirement, except for permanent disability.

LIFETIME PAYOUTS. Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.

PORTABLE BENEFITS. Benefits should be portable when workers change jobs.

VOLUNTARY SAVINGS. Additional voluntary contributions should be permitted, with reasonable limits for tax-favored contributions.

EFFICIENT AND TRANSPARENT ADMINISTRATION. The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives.

EFFECTIVE OVERSIGHT. Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

The participation in and contributions to the GBP are, however, voluntary for employers, though a supplement could be added requiring that employers offer and contribute to a qualifying retirement plan. ERIC suggests that these reforms will, along with increased access to retirement plans at the workplace, both reduce the overall administrative costs and increase participation in the individual retirement system. Though these reforms may indeed reduce costs and improve access somewhat, as a whole, the proposals in the New Benefit Platform will not produce the significant, structural changes the country's retirement system so direly needs. With no mandatory contributions from employees, employers, or government, no default contribution rate or, particularly, no mandated access for employees to a workplace retirement plan, ERIC's plan fails to satisfy several vital principles necessary for a secure, comprehensive retirement system.

The Super Simple Savings plan proposes a voluntary system of private individual retirement plans designed to expand coverage and increase both employer and employee retirement savings. The Urban Institute's proposal contains many desirable features, including mandatory enrollment and employer contributions for employees of participating employers, but lacks two important elements: mandatory employer enrollment in the plan and investment options that eliminate investment risk. The Institute's plan declined to require employer participation because they were concerned that the overhead costs of participation would be overly burdensome to small employers. Small businesses^{viii}, however, employ around 27 million workers, or almost 18 percent of the labor force, and their employees are among the groups with the lowest coverage rates—46 percent lower than large employers.⁴⁹ It is vitally important that any reform provide coverage to these employees, who often receive lower wages and fewer benefits than those of large corporations. In addition, Urban's plan does not describe its exact investment scheme, but only notes that it will “provide simple, low-cost accounts that deliver a high return to saving”. By leaving employees and plan sponsors to choose among the same high-cost, indecipherable investment options that dominate the retirement landscape today, it leaves workers vulnerable to the same risks as current individual retirement options: wildly varying returns (and consequently, unpredictable retirement dates), outliving your retirement savings, etc. Any reform must be both universal and minimize the risks to employees if it is to be fair and comprehensive.

GUARANTEED RETIREMENT ACCOUNTS: COMPREHENSIVE RETIREMENT REFORM

Only the “Guaranteed Retirement Account” plan (GRAs) proposes a set of reforms that will create a universal, secure, and adequate second tier of retirement security. GRAs ensure a such a retirement by covering all workers, requiring both employer and government contributions, and guaranteeing a minimum return on invested funds. By pooling assets and entrusting financial professionals to manage the fund's investments over a longer time period than could be considered by individuals, GRAs both minimize overhead costs and investment fees and maximize returns. And by prohibiting account withdrawals and guaranteeing lifetime, set payments at retirement, the plan ensures retirees an adequate, predictable stream of income, no matter how long they live.

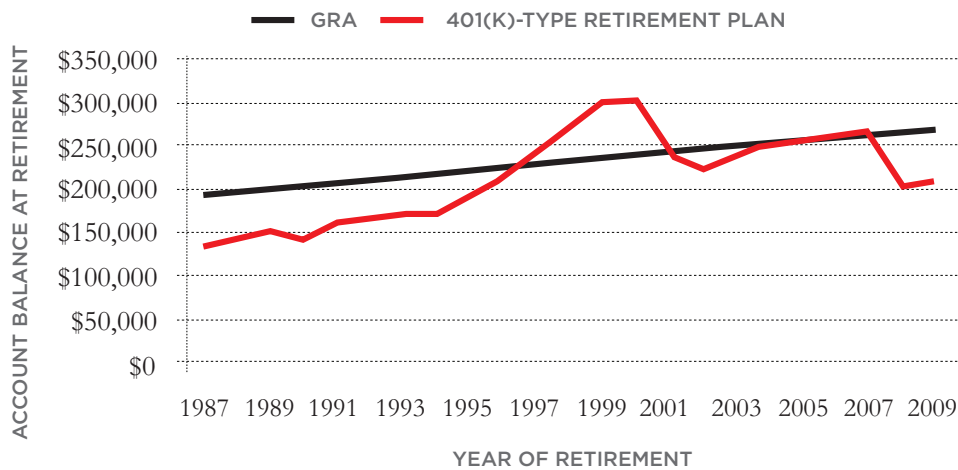
^{viii} Defined here as businesses with less than \$2.5 million in annual revenue

TABLE 7: PROPOSALS FOR IMPROVING RETIREMENT SECURITY⁴⁶

	Super Simple Savings Plan	A New Benefit Platform for Life Security	“Auto IRA” Proposal	Guaranteed Retirement Accounts Plan
CREATOR	The Urban Institute	ERISA Industry Committee	White House Middle Class Task Force ⁴⁷	EPI/Teresa Ghilarducci
PROPOSAL DESCRIPTION	Simplified private-sector individual retirement plan	System of private-sector “benefit administrators” providing both traditional pensions and individual retirement plans	Government-administered clearinghouse for individual retirement plans	Government-administered guaranteed individual retirement plans
COVERAGE	Voluntary; employers given incentives to offer; workers automatically enrolled if employer offers plan but can opt out.	Voluntary; employers can offer either plan through the centralized system instead of sponsoring their own; workers can also set up individual plans through the system	Somewhat mandatory; employers with 10 or more employees required to set up payroll deduction IRAs; workers automatically enrolled but can opt out	Mandatory; all workers without an equivalent or better plan required to participate
CONTRIBUTIONS	Mandatory minimum employer contributions of 3 percent; default worker’s contribution of 4 percent with automatic escalation to 8 percent; government match	No minimum contributions from any required, but the proposal also includes an optional supplement calling for mandatory minimum worker and/or employer contributions	Employer contributions not required; default contribution rates for workers of 3percent; government matching contribution up to \$500 ⁴⁸	Mandatory minimum contributions from workers and employers of 2.5 percent each; government contribution of \$600 for all workers, regardless of income
INVESTMENT RETURNS	Same as existing individual accounts; no guaranteed return	Default fund mixes; no guaranteed return for individual accounts	Same as existing individual accounts; no guaranteed return	Guaranteed minimum 3 percent real return; workers receive an annuity based on their account balance at retirement
PORTABILITY	Fully portable between jobs	Fully portable between jobs	Fully portable between jobs	Fully portable between jobs
LEAKAGE	Prohibits withdrawals of government and employer contributions; hardship withdrawals and loans for workers’	No leakage from traditional pensions; withdrawals permitted for individual accounts	Prohibits withdrawals of government and employer contributions; hardship withdrawals but not loans for workers’	Loans prohibited; hardship withdrawals only in case of disability
SATISFIES RET. USA PRINCIPLES?	Universal: No Secure: No Adequate: No	Universal: Somewhat Secure: Yes Adequate: No	Universal: Somewhat Secure: No Adequate: No	Universal: Yes Secure: Yes Adequate: Somewhat
	Supporting Principles:	Supporting Principles:	Supporting Principles:	Supporting Principles:
	I.) Yes II.) Yes III.) No IV.) Yes V.) No VI.) Yes VII.) Yes VIII.) Yes IX.) Yes	I.) Yes II.) Yes III.) No IV.) Yes V.) Yes VI.) Yes VII.) Yes VIII.) Yes IX.) Yes	I.) Yes II.) No III.) No IV.) Yes V.) Yes VI.) Yes VII.) Yes VIII.) Yes IX.) Yes	I.) Yes II.) Yes III.) Yes IV.) Yes V.) Yes VI.) Yes VII.) Yes VIII.) Yes IX.) Yes

The GRAs promise of a 3 percent minimum^{ix} yearly real return turns out to not just be more secure than an individual retirement account, but also a better deal, as well. If our hypothetical average worker from

RETIREMENT ACCOUNT BALANCE BY YEAR OF RETIREMENT HYPOTHETICAL WORKER WITH MEDIAN INCOME



Sources: Department of Labor, “Study of 401k Plan Fees and Expenses” 1998, and Author’s Calculations

earlier had invested his or her funds in a GRA, he or she would have ended up with more money at retirement in 17 out of the past 23 years. In fact, in only 3 of them, mostly during the dot-com-driven stock market bubble of the late 90s, would a worker have ended up with a substantially higher (<\$20,000) account balance with a 401k. A worker retiring in 2008

at during the depths of the recent market plunge, on the other hand, would have retired with over \$60,000 more if they’d been able to save in a GRA. For most workers, especially those on the lower end of the income spectrum, the predictability and security of the GRA makes it the superior choice for Americans’ retirement savings.

^{ix} 3 percent is the minimum return, but may return more, depending on investment performance.

CONCLUSION

The shift in private retirement coverage from traditional pensions to individual retirement plans has made the goal of a comfortable retirement a risky, costly gamble. A fortunate few will retire wealthy while the majority watches as their contributions are gutted by high fees and their account balances plummet every time a corporation reports a losing quarter. A new retirement system, built upon guaranteed returns and lifetime payments, as provided by Guaranteed Retirement Accounts, is needed to restore the stable, secure retirement that should be the right of all those who have worked their entire lives. Meanwhile, only one part of retirement is certain: workers nearing retirement are watching their individual account balances and crossing their fingers, hoping that another market downturn doesn't postpone their retirement for years to come, or wishing there were employers willing to hire workers that many consider too old to work.

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