



Relax. The Government is Not Going to Seize Your 401(k)

An inside look at the evolution of an utterly ridiculous rumor **A SPECIAL REPORT** November 2008
by Ric Edelman

The political rumor mill has been working overtime lately, grinding out one of the most preposterous and unfounded rumors I've heard in a longtime. The scary tittle-tattle: The U.S. government is going to kill 401(k) plans and seize the funds.

To ease your fears, let me simply say this is completely untrue. The government is not confiscating 401(k) funds and has never even considered doing so. The rumor is entirely untrue.

But where did this myth come from? And why are members of the mainstream media covering it?

It all began with two hearings conducted last month in Congress. The House Committee on Education and Labor, chaired by Rep. George Miller (D-Calif.), examined how the current financial crisis is impacting pension funds and 401(k) plans. Over two days, 13 people testified. One of them was Teresa Ghilarducci, an economics professor at The New School for Social Research.

In her testimony on October 7, Ghilarducci discussed a paper she'd

written in November 2007 and stated that Congress should consider her idea to "let workers trade their 401(k) and 401(k)-type plan assets (perhaps valued at mid-August prices) for a Guaranteed Retirement Account composed of government bonds." To pay for this new program, she suggested scaling back the tax breaks provided to workers who contribute to 401(k) plans. Dr. Ghilarducci did not suggest that her new program become mandatory, nor has Congress expressed an interest in implementing her ideas. Her notion was merely a suggestion — one of many shared during the hearings.

One week later, industry newspaper *InvestmentNews* published an article headlined, "House Democrats Contemplate Abolishing 401(k) Tax Breaks." The story referenced Ghilarducci's proposal and quoted her as saying that members of Congress were interested in her plan.

Perhaps the story would have died there if not for an unrelated story that occurred a week after that. On October 22, the government of Argentina, facing a severe financial crisis of its own, nationalized

FACT or FICTION?

FICTION

The U.S. government will confiscate your 401(k).

FACT

A college professor says the government should end 401(k) tax breaks, use the money to create a new guaranteed retirement program, and allow workers to trade their 401(k)s for it if they wish.

the country's \$30 billion private pension system, taking the money to help repay some of the government's debts.

And that's when it started. Someone somehow morphed these two separate stories into one — and soon, rumors spread. A House hearing on 401(k) plan + Ghilarducci's proposal to end tax breaks + Argentina's action = the U.S. government is seizing the money in your 401(k) plan.

U.S. News & World Report columnist James Pethokoukis played into the game with his October 23, "Would Obama, Dems Kill 401(k) Plans?" Pethokoukis wrote, "I hate to use the 'S' word, but the American ►

government would never do something as, well, socialist as seize private pension funds, right?" He went on to discuss the concept as though it were possible. He explained why it's a bad idea (and it is), but he offered no source or information suggesting that anyone on Capitol Hill is pursuing such an idea.

Soon after, on November 4, the Carolina Journal Online went further with the idea, running an article entitled, "Dems Target Private Retirement Accounts: Democratic leaders in the U.S. House discuss confiscating 401(k)s, IRAs." But the article failed to offer any source or evidence to support that wild headline.

Meanwhile talk radio hosts and political pundits have been running with the story. Forget Joe the Plumber. We now have Terry the Left-Wing Economist.

The Real Problem

Ghilarducci's idea has no chance of getting anywhere — so that's not the problem.

The real point, which the pundits are missing, is that America's retirement planning system doesn't work very well. Too few save, they don't save enough, and they choose the wrong investments. Result: 401(k) plans are failing to create a workforce that will be ready for retirement.

It's true

Just 56% of employees have access to a 401(k) plan, according to 2008 figures from The Bureau of Labor Statistics. And only 77% of those workers actually participate in the plan. Between the people who don't have access and the people who don't use the plan they have, nationally only 43% of all workers contribute to retirement plans. Their average balance: \$121,000, according to 2007 data from the Employee Benefit Research Institution.

Worse, only 10% of workers contribute the maximum, according to 2007 data from Vanguard Institutional Investor Group, a pension consulting firm. No wonder, then, that those ages 60 and over have an average 401(k) balance of just \$157,727, according to EBRI. That's barely enough money to produce a monthly income of just \$625 — before taxes.

If that's not bad enough, consider that, according to Hewitt & Associates, one out of four workers who are within 10 years of retirement have 90% of their 401(k) funds in stock — a risky option that lacks any sort of diversification. Guess what's happened to those workers' account balances in the past year.

So we really do have a problem. The 401(k) system isn't failing; Americans are failing to use 401(k)s. We can't

let this continue. We need to figure out how to increase participation, and we need to drastically improve financial literacy — so that workers know the importance of starting to save early in their careers, and so they know how to make the right investment choices for their savings. Under current rules, employers aren't even allowed to provide advice! That's just plain stupid.

If we don't help people succeed with retirement planning, millions of Americans will enter retirement with little to no assets. If that happens, based on past history, you can expect that the government (and thus, the taxpayer) will be called upon to bail them out. So if you think our current rescue efforts are costly, you ain't seen nuthin' yet.

For all these reasons, it's entirely appropriate for Congress to examine this issue. But to suggest that it is about to seize the money is absurd. If such a proposal were to start to receive serious consideration, I would be among the first to organize a grassroots campaign to oppose it. I wouldn't stand for any action that is even remotely similar to what happened in Argentina. I know you wouldn't either. And Congress knows it, too.