DO-IT-YOURSELF RETIREMENT

How are Americans faring with their 401(k)s?
Author **Helaine Olen** reports from New York.

"For retirement, the answer is 4-0-1-k," proclaimed Tyler Mathisen, then editor of Money magazine in 1996. "I feel sure that someday, like a financial Little-Engine-That-Could, it will pull me over the million-dollar mountain all by itself."

For this sentiment, and others like it, Mathisen was soon rewarded with an on-air position at financial news network CNBC, where he remains to this day.

As for the rest of us? We were had.

The United States is on the verge of a retirement meltdown. The culprit? That same thing Mathisen celebrated: the 401(k), along with the other instruments of do-it-yourself retirement. Not only did they not make us millionaires as self-appointed pundits like Mathisen promised, they left very many of us with very little at all.

For the first time in living memory, it seems likely that living standards for those over the age of 65 in the United States will begin to decline as compared to those who came before them – and that's without taking into account the possibility that Social Security benefits will be cut at some point in the future.

On their own, the amount of money Americans have put aside for their post-work lives sounds extraordinary. According to the Investment Company Institute, the lobbying arm of the mutual fund industry, Americanshad $20.8 trillion in retirement savings, divided between individual retirement accounts, defined contribution plans, defined benefit plans, government plans and annuity reserves.

But when broken down to the individual level, those numbers add up to nowhere near enough money. According to a recent report issued by the National Institute on Retirement Security, the median amount a family nearing retirement has saved for their post-work lives is $12,000.

As for the magical 401(k)? If a household where the earners are between the ages of 55 and 64 does have a retirement account, they barely hit the six-figure mark at $100,000 – a far cry from $1 million we're told we need.

No one less than John Bogle, the founder of the Vanguard Group, has come forward to declare the American way of retirement savings "a train wreck".

You might be tempted to ask, "What went wrong?", but a better question might be "why did we ever expect this to work at all?"

Well, for that you can blame the great bull market of the twentieth century.

Everyone Thought They Could Get Rich

What Americans think of today as the natural retirement landscape began as a few technical changes to the tax code in the late 1970s. These changes were meant to allow high earners to receive a greater chunk of their salary on a tax deferred basis. However, the Reagan administration decided that companies should be allowed to offer the new set-aside to all their workers. It didn't take the corporate bean counters long to figure out the new 401(k) was much cheaper than traditional pensions, and the race to the bottom was on.

Just as Americans were beginning to grapple self-funded retirement mechanisms, the Dow Jones Industrial Average took off. From a low in the 770s in August 1982, it rose above 10,000 in early 2000, only to fall briefly before resuming its climb and hitting 14,000 in the fall of 2007. As renowned consumer reporter Trudy Lieberman told me, "The stock market started to go up and everyone thought they could get rich."

Yet even as a massive advertising apparatus promoted the idea that ma and pa saver could invest their way to riches, we ignored warning of trouble. As early as 1986, Karen Ferguson who was then, as she is now, the head of the Pension Rights Center, warned in an op-ed published in the New York Times, "Rank-and-file workers have nothing to spare from their paychecks to put into a voluntary plan." In 1994, economist Teresa Ghilarducci, who is now at the New School, called the do-it-yourself retirement system an "an abyss" at a congressional hearing.

The voices of these critics were drowned out by the money and power of the financial services industry. Lack funds for your golden years? Well, you most likely either did not save enough money or invest it well. This, frankly, ignores reality. Salaries for the majority of us are, when translated into constant dollars, falling. The median household is earning 8 per cent less income adjusted for inflation today than it did in 2000. In the first quarter of 2013, wages fell by the greatest amount ever recorded.

At the same time, costs of things Americans can't do without continue to rise. College costs have tripled since the early 1980s. The amount of money students are borrowing to pay tuition bills all but doubled from 2005 to 2012 to $1.1 trillion. Healthcare costs have also soared and patients are increasingly responsible for ever greater amounts of their medical expenses – credit reporting agency Transunion recently claimed an astonishing 22 per cent rise in out-of-pocket hospital expenses over the past year.

People find it almost impossible to put money aside in this environment. The American savings rate hovered around 10 per cent in the late 1970s and early 1980s. Today, it is a little more than 2 per cent.

As a result, innovations that promise to improve our retirement situation never seem to work out quite as planned. Take a look at what happened when companies began to adopt automatic enrolment plans for 401(k)s, which forces people to opt-out of retirement plans instead of filling out papers to join up. Yes, the number of people contributing to deferred contribution accounts increased, but so too did what industry insiders call "the leakage" rate – that is, the number of people borrowing against or withdrawing the monies in their accounts. (If the money isn't repaid, the consumers must pay additional penalties for accessing it.)

The leakage rate is now close to 25 per cent.

The Gravy Train

So, why does this situation persist? Well, a train wreck for you and me is a gravy train for the financial services sector. In the United States, they are the only group that matters. Whether the stock market goes up, down or sideways, the financial services sector makes out when it comes to retirement accounts.

How much do they earn? Astonishingly, we don't know the answer. In 2008, Bloomberg magazine polled a group of pension consultants and came to the conclusion that 401(k) fees alone totalled $89.1 billion annually. More recently, Robert Hiltonsmith at the progressive think tank Demos came to the conclusion the average two-family household loses $155,000 in potential gains to fees over the course of their careers.

The industry gets away with this because it has what amounts to a captive audience. While there is some evidence that the recent US Department of Labor requirement to reveal 401(k) plan fees to participants has brought expenses down slightly, knowledge does not leave consumers in the driver's seat. Employees simply have to take what is given to them.

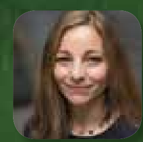
Moreover, the 50 per cent of the population that lacks access to 401(k)s and needs to invest for their post-work lives via Individual Retirement Accounts is in even worse shape.

Brokers not working in the best interests of their clients make the vast majority of IRA investment recommendations. Not only is this quite legal, the financial services industry is actively fighting attempts by the Department of Labor to change the situation, claiming it would not be able to afford to offer many low- and middle-income investors advice under an enhanced standard of care.

Think about this for a moment. The retirement industry is actually admitting it doesn't have a viable business model if it needs to put its customers first.

The truth is this: the concept of a do-it-yourself retirement can't work. To expect people to save up enough money to see themselves through a 20- or 30-year retirement is a dubious proposition in the best of circumstances. Yet, this is the system instituted in America which allows hustlers in the financial sector to prey on ordinary people with little knowledge of sophisticated financial instruments and schemes. And the mainstream US media, which increasingly relies on the advertising dollars of the personal finance and investment industries, perpetuates this expensive lie to an unsuspecting public.

When combined with stagnating salaries, rising expenses and a stock market that did not perform like Rumpelstilskin and spin straw into gold, do-it-yourself retirement is guaranteed to lead future generations of Americans into financial insecurity. It's unlikely to work any better for Europeans.



Helaine Olen is the author of *Pound Foolish: Exposing the dark side of the personal finance industry* (2013). This piece has been adapted from an article previous published on Alternet and Salon.com