

SHOULD SOMETHING REPLACE THE 401(K)? *Do Americans need a new way to save for retirement?*

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

In fall 2009, *TIME* Magazine raised eyebrows with a cover article called "Why It's Time to Retire the 401(k)". Author Stephen Gandel, the magazine's senior economic writer, argued that 401(k)s, 403(b)s and IRAs had proven themselves "a lousy idea, a financial flop."

Citing data from the Society of Professional Asset-Managers and Record Keepers, Gandel noted that in 2009, the average 401(k) had a balance of \$45,519. Moreover, 46% of all 401(k) accounts had balances of under \$10,000. However, he failed to mention that the average 401(k) account has been held for less than a decade.^{1,2}

A 401(k) plan simply takes too long to succeed, Gandel argued, and is too susceptible to market forces; in a market downturn, he said, it is unfair that the most hurt are the most invested.

What might the alternative be? A *New York Times* editorial called for a radical move, contending that "the only way to avoid wide variations in [401(k)] outcomes would be to develop a savings plan in which the government shared the risk - say, by providing a guarantee that returns would not fall below a certain level." The editorial called for shifting the retirement savings "risk that is currently borne by individuals onto corporations and the government."³

Obviously, not everyone is going to agree with that. But arguments for something similar are gaining momentum. A group of retirement plan administrators calling themselves the ERISA Industry Committee is pitching an idea called the New Benefit Platform for Life Security, which sounds like kind of a super-IRA with some characteristics of an annuity.

In this concept, your employer would have nothing to do with your retirement plan (unless it wanted to match your contribution to it as a perk). Instead, you would set up your own portable retirement plan with a retirement plan administrator of your choice in the free market. Your "NBP" wouldn't have contribution limits, and you could set it up like a traditional pension to produce a lifelong retirement stream upon retirement. It certainly sounds great - except for one drawback. Who knows if the company acting as your retirement plan administrator would be around 20, 30 or 50 years from now?⁴

Other voices are proposing retirement insurance, possibly even from the federal government. Prof. Teresa Ghilarducci, an economist at The New School in New York City, has offered the idea of directing 5% of the wages of all working Americans into a mass retirement fund, which would pay out 26% of your end salary annually for the remainder of your life. (A little social security to complement Social Security, so to speak.) A Harvard professor would like to set up Social Security so that we would get 20% more than our final pay in SSI.¹ At this juncture and with this federal deficit, who knows if these are anything other than pipe dreams.

The 401(k) is still a vital retirement savings vehicle. In fact, many financial advisors feel it is the most useful retirement savings vehicle available to most Americans. The problem is that many 401(k), 403(b)s and IRAs are underutilized - people invest too little, or too infrequently, or withdraw what they've saved and invested too often.

Reaction to market whiplash, or a prelude to real revision? Of course, had the stock market not suffered so badly in late 2008 and early 2009, people might not be talking about this at all. Whether history proves the 401(k) a great idea or not, the thing for pre-retirees (and journalists) to remember is that there is no one retirement savings or retirement planning "answer". A 401(k) is simply one of the "clubs in the bag" that you can carry as you stay "on course" for retirement - ideally, a component of a diversified retirement savings strategy.

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Citations.

¹ time.com/time/business/article/0,8599,1929119-1,00.html [10/9/09]

² investmentnews.com/apps/pbcs.dll/article?AID=/20091025/REG/310259979/1031/RETIREMENT [10/25/09]

³ nytimes.com/2009/08/24/opinion/24mon1.html?_r=1 [8/24/09]

⁴ moneywatch.bnet.com/retirement-planning/blog/financial-independence/retire-the-401k-replace-it-with-this/558/ [10/15/09]