

Work, work, work

401(k) model guarantees that many of us will never get to retire

By Michael Maiello Wednesday, April 27, 2011

Face it, you might never get to retire. The \$15.7 trillion that Americans have managed to save won't be enough. Particularly since the cost of living continues to rise as consumers in the U.S. compete with consumers all over the world for life's most basic food and fuel commodities.

Psychologist and gerontologist Ken Dychtwald of the consultancy Age Wave has persuasively argued that people will have to work in one way or another up until the very end of their lives. At best, most people will semiretire, working flex time, perhaps consulting for their old bosses or returning to the kind of part-time service work that most people thought they'd left behind in their school years. It's simply impossible for most people to save enough to cover retirement in an age of longer life spans, particularly if we enter a period of high inflation. Meanwhile, safety net programs like Social Security and Medicare have come under sharp Republican attack (since 2005, they have attempted to privatize both programs multiple times).

In any event, Dychtwald argues, retirement the way we think of it, with the Florida beaches and the trips to Napa, is a relatively new concept. Throughout most of American history people have stopped working only when they've expended their last productive wattage. In the larger world this is still typical for most.

By replacing pension plans, which guarantee a worker's income and benefits for life, with 401(k) plans, which leave workers with a limited benefit depending on how much they saved and what returns they experienced, corporate America has abandoned the 20th-century American bargain of a comfortable retirement in exchange for decades of labor. If you have a 401(k), you bear the full risk of funding your own retirement. The very fact that people like Dychtwald believe you'll be spending your retirement hustling for work is proof that the 401(k) math doesn't work.

Returns might not be the 8 to 10 percent a year promised by the investment industry, based on decades of lumpy return data. In fact, it might not be possible for workers to save enough to keep up with their rising living expenses. The people who designed the 401(k) seemingly knew this from the start, as they never intended for it to be anyone's main means of retirement funding.

The 401(k) was added to the tax code in 1978 as a way for workers to avoid present-day taxation on deferred compensation. It was a place for people to set aside occasional bonuses and stock grants that could be used to augment, rather than replace, traditional pensions.

We're just now seeing what happens when people retire with only their 401(k) savings and it isn't pretty. In February, the Wall Street Journal reported that the median household headed by someone between the ages 60 and 62 has a 401(k) balance that's less than a quarter of what they'll need to maintain their lifestyles in retirement. Think about your own situation: If you want to live then as you do now, you'll have to replace at least 85 percent of your current income every year after you stop working. Can you afford to save the congressionally mandated maximum \$16,500 a year, every year, for your entire working life?

This isn't a problem that will be solved by later retirement. While it may be true that some (richer) segments of society are living longer, too many Americans enter their late 60s in ill health. Even if people are willing and able to work into their 70s, the jobs probably will not be there to accommodate them. Most workplaces, you might have noticed, favor younger workers. Given the burdens of our private health insurance system, older workers are too expensive for many employers. Already, the Social Security retirement age is set to climb to 67. Absent medical miracles, that's going to be too high for most working people.

Remember this during the deficit debates. The people telling you that they can reduce your Social Security benefits and switch you to a private health insurer in your old age are essentially arguing that the 401(k) model, inadequate under the current system, will be able to bear even greater retirement expenses in the future. It isn't true. Changes such as those will bring about Dychtwald's forecast and retirement will be an option for only the wealthiest Americans. We've all heard the saying that nobody on their deathbed regrets the time they didn't spend at the office. If the budget cutters get their way, you won't have to worry about it because you'll keel over by the snack machines.

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