Was the 401(k) a Mistake?

0:01

from New York Times I'm Michael babro

0:04

this is the

0:05

[Music]

0:10

daily over the past few weeks the US

0:13

Stock Market has been on a tear soaring

0:16

to record levels and delivering a shot

0:18

in the arm to retirement accounts the

0:21

trouble is millions of Americans don't

0:24

have such accounts and even if they do

0:27

have little or no money inside of them

0:30

my colleague Michael Steinberger has

0:32

been trying to figure out why Americans

0:35

are retiring so poorly and traces much

0:39

of it back to our growing Reliance on

0:42

the

0:47

401K it's Monday May

0:50

[Music]

0:53

20th Michael we are going to talk to you

0:56

today about what doesn't look on paper

0:59

like

1:00

the world's sexiest subject but I think

1:03

actually is a very sexy subject which is

1:07

retirement in the United States and you

1:11

began your journalistic inquiry into the

1:15

subject of retirement in America with a

1:18

very provocative question you asked was

1:21

the

1:22

401K a mistake has this vast system of

1:26

personal retirement plans that we now

1:29

all rely on pretty much has it failed us

1:33

and I wonder why exactly you decided to

1:36

ask that provocative question right

1:39

now I asked that question right now

1:42

because we are having an unprecedented

1:44

number of Americans reaching retirement

1:46

age this year alone it's estimated that

1:49

4.1 million Americans will turn 65 W

1:52

it's a record number what the ARP calls

1:54

the silver tsunami and this is the first

1:58

cohort of Americans the first generation

1:59

of Americans who entered the workforce

2:02

40 years ago when 401ks became sort of

2:06

the dominant vehicle for establishing a

2:09

retirement Nest Egg 401ks just for the

2:13

sake of clarity our employer provided

2:15

retirement savings plans basically you

2:18

set aside a certain portion of your

2:21

paycheck to an investment account of

2:23

your choosing and the hope is that those

2:25

contributions with the help of the

2:27

financial markets will grow

2:28

substantially over time time right and

2:30

so this generation of American workers

2:33

that's now entering retirement age are

2:36

the products of a 40-year experiment

2:38

with self-directed retirement financing

2:40

and now we're get to see whether it

2:42

worked and we know it worked well for a

2:44

lot of people the concern is that it

2:46

didn't work as well for many others and

2:49

that a lot of Americans are now reaching

2:51

retirement age without having adequate

2:54

money put aside for their

2:56

retirements just how inadequate is that

3:00

retirement picture one estimate is that

3:02

49% of people in the 55 to 65 age

3:06

bracket have nothing put aside for

3:09

retirement W the numbers are quite Stark

3:11

half of the population of those at or

3:14

near retirement have nothing put away

3:17

that's what the numbers indicate and

3:19

depending on the estimate we're looking

3:21

at you maybe 10 to 20% of all seniors

3:24

already are living in poverty and so for

3:27

many retirement is an aable

3:31

aspiration and there's a strong case to

3:33

be made that

3:35

401ks are largely responsible for the

3:38

fact that so many Americans don't have

3:40

adequate savings well this feels like

3:43

the moment in a daily episode where I

3:44

think we have to roll back the tape a

3:46

bit and have you explain how this

3:50

40-year-old 401K experiment ever began

3:55

so let's start with the story of how we

3:57

have come to rely so much on the 401K in

4:00

the first place well I think it would be

4:01

good to start that story with the system

4:04

that existed before 401ks came along

4:07

back in the 50s 60s and into the 70s a

4:10

lot of companies offered their workers

4:12

pensions and pensions were basically the

4:15

company would create a pool of assets it

4:16

would manage the money invest the money

4:18

and manage it on behalf of employees and

4:20

if you worked for a company long enough

4:23

you were guaranteed a fixed retirement

4:26

income provided by the company for the

4:29

rest of your life right and the key word

4:31

there is guaranteed companies guaranteed

4:35

that your pension would be at a certain

4:38

level essentially in perpetuity exactly

4:41

if you worked for a major steel or auto

4:43

company and you spent 30 years 40 years

4:46

working on the assembly line of that

4:47

company you knew that when you retired

4:49

you were going to be getting a fixed

4:51

monthly income from the company you knew

4:53

what the amount would be and it was a

4:57

huge benefit to working for these

4:58

companies

5:00

it was a different era of course um it

5:02

was an era of Lifetime employment people

5:04

you often spent their entire careers

5:06

with the same company and people also

5:09

didn't live as long from a company's

5:11

point of view pensions were affordable

5:13

and it was just a very different time

5:16

and you it should be said that even in

5:19

the Heyday of Pensions only around half

5:21

of all private sector workers had them

5:23

so they weren't as broad-based as as

5:26

people might think and these days

5:28

there's a bit of mythologizing about

5:30

that era but if you had one it was

5:32

something you cherished and it was an

5:35

era in which the country seemed to do a

5:37

better job of taking care of the working

5:40

person well then who would willingly

5:43

give up that cherished system of the

5:46

pension well 401ks came along as almost

5:50

an historical accident in the 60s and

5:53

70s many companies were looking for ways

5:55

to reward their Executives and

5:58

specifically they were looking for ways

6:00

that they could award bonuses to

6:02

Executives and not have that money taxed

6:05

the top marginal tax rate at the time

6:06

was quite high right and so some

6:08

companies began offering tax deferred

6:10

savings plans to Executives to help them

6:13

minimize their tax hit basically the way

6:15

these worked was that the company would

6:17

pay bonuses directly into these accounts

6:19

and the executives could only take the

6:21

money out when they left the company

6:23

either take another job or to retire but

6:26

there was always a certain murkiness

6:27

surrounding these plans it was never

6:29

enti clear the IRS approved of them it

6:32

was never entirely clear that the IRS

6:33

would continue to approve of them and in

6:36

1978 Congress stepped into this vacuum

6:39

when it passed a broad piece of

6:41

legislation that included a short

6:44

provision called section

6:46

401K that attempted to provide greater

6:49

Clarity to how these profit sharing

6:52

schemes could be

6:54

established and the people who wrote the

6:56

legislation didn't think that section

6:59

401K was significant at all they thought

7:03

it was just a sort of inconsequential

7:05

tweak however a retirement benefits

7:08

specialist in Suburban Philadelphia

7:11

thought

7:13

otherwise in 1979 a gentleman named Ted

7:16

benna he had been asked by a local bank

7:19

to try to devise a profit sharing

7:22

program that it could offer to

7:25

Executives got it so in other words they

7:27

were doing that same old thing of trying

7:29

to figure figure out how to Shield the

7:30

taxes of highly paid Executives exactly

7:34

and so there he was sitting in his

7:36

office on a weekend afternoon in

7:38

1979 and he started reading quite

7:41

closely this section

7:45

401k and the light bulb went

7:48

off he realized that there was possibly

7:51

a way to preserve this sort of system

7:54

legally instead of the company making

7:56

payments directly into these accounts

7:59

you could offer them as Retirement plans

8:02

that employees could pay into themselves

8:05

the thinking was that if you paid

8:07

Executives big bonuses they could choose

8:08

to put that money into the plan

8:11

pre-tax and he sort of realized he was

8:14

on to something quite

8:17

big the catch was section 401K indicated

8:21

that this plan had to be made available

8:23

to rank and file employees at a

8:26

company and that struck benett as a

8:29

challenge because it was one thing for a

8:32

highly paid executive to be willing to

8:34

put aside some of his income in such a

8:37

way but to ask a bank teller right

8:39

people who tended to need the money more

8:42

immediately that was going to be a big

8:44

ask and solving that piece of the puzzle

8:47

was a big Challenge and so what was his

8:49

solution his solution and it was an

8:51

ingenious one was that the bank could

8:54

offer to match a portion of the

8:56

contribution that an employee made so

8:58

instantly would grow their money right

9:01

there's kind of a free money quality to

9:03

that proposal and that this was the

9:05

sweetener that could get Rank and file

9:07

employees to go along with it and in

9:11

that moment in that flash of inspiration

9:13

Ted Bena created the modern 401K which

9:16

would go on to change the American

9:17

economic retirement

9:21

[Music]

9:23

system a funny footnote to this is that

9:26

the bank that had asked benett to come

9:28

up with the plan rejected the

9:30

plan it was concerned that the IRS would

9:33

ultimately rule the scheme illegal but

9:37

Bena was undeterred and decided that he

9:40

would offer the plan to his own company

9:42

benna's colleagues and employees loved

9:45

the plan and happily contributed to it

9:47

and you through word of mouth and

9:50

articles in local newspapers the idea

9:54

took hold and the timing turned out to

9:56

be very fortuitous um so well for a

10:00

couple reasons one a lot of Corporations

10:02

were you know had come to regard

10:05

pensions as albatrosses certainly the

10:08

two industries that were best known for

10:10

their pension programs Auto and steel

10:12

these were industries that were in

10:14

Decline and their pension obligations

10:16

were killing them right because as you

10:17

told us earlier they literally guarantee

10:20

a certain level of retirement absolutely

10:23

and meeting those guarantees had become

10:25

increasingly onerous and particularly

10:27

for companies that were in dying or

10:29

fading

10:30

Industries and so you have companies

10:33

looking to get away from this pension

10:35

system and the politics of that era was

10:38

also a significant factor I mean this

10:40

was when Ronald Reagan is President and

10:43

Reaganomics as it was called was

10:45

centered around the idea of individual

10:48

responsibility individual economic

10:49

empowerment and 401k's shifted

10:53

responsibility for retirement saving

10:55

from the employer to the employee it was

10:58

really up to the employee to figure out

11:01

how he or she wanted the money invested

11:04

and to people who were enthusiasts of

11:07

401ks it was also you know an

11:10

emancipatory vehicle a chance to give

11:13

Americans individuals you know the

11:15

freedom to sort of chart their own

11:17

destiny and so the 401ks fit very neatly

11:22

into the politics of that moment well I

11:24

wonder if you can walk us through the

11:27

ideal version of how a 401k would have

11:31

been working for a worker in this era

11:34

when it was being more and more adopted

11:37

and workers were starting to really like

11:39

what they saw in this alternative to the

11:43

pension let's imagine the guy who

11:45

entered the workforce in the 1980s and

11:48

in honor of the father of the 401K Ted

11:50

Bena let's call this imaginary figure

11:53

Ted mhm

11:56

perfect Ted gets hired by a company

11:59

company offers a 401k plan and Ted is

12:04

disciplined his father and mother have

12:06

told him for years that if you want a

12:08

proper retirement you need to save you

12:11

can't spend everything showing a little

12:12

Financial restraint is a good thing at a

12:14

young age and you know they've given him

12:17

books like The Wealthy

12:18

Barber which documents the magic of

12:21

compound interest so having realized

12:24

that you know saving is important Ted

12:27

happily establishes a for 1K account

12:30

through his company maxes out his

12:32

contribution you know faithfully and the

12:35

company also provides a generous match

12:38

and you know his income keeps Rising as

12:40

the years go by so he's contributing

12:43

more and more to his 401k MH and because

12:46

he's earning a good amount of money as

12:47

it is he never needs to touch that money

12:50

um he can leave it there for retirement

12:52

let the stock market work its magic and

12:55

the market did work its magic there have

12:57

been downturns over the last 20 30 years

13:00

but basically you sticking with the

13:02

stock market has proven to be a very

13:04

wise

13:07

bet and today as he nears retirement Ted

13:11

is one of hundreds of thousands of

13:12

Americans who has more than a million

13:14

dollars in his 401k right this is the

13:17

very promise of the 401K that if you

13:21

contribute early and consistently you

13:24

can build a very serious nest egg over

13:27

the course of your career and you can do

13:30

it on your own terms exactly but from

13:35

the start there were people who wondered

13:37

whether this was really a good

13:41

idea you saving for retirement is

13:44

essential did it make sense to put so

13:46

much of the burden on workers is saving

13:48

for retirement really a do-it-yourself

13:52

[Music]

13:56

Endeavor we'll be right back

14:00

so Michael who specifically was warning

14:03

us pretty prly as it turned out that a

14:06

growing Reliance on the 401K for

14:09

retirement was a dangerous

14:12

experiment well one person who was

14:14

warning us was an economist named Teresa

14:16

garducci who teaches now at the news

14:19

School in New York and what's

14:21

interesting about her is that she

14:24

entered the workforce at around the time

14:27

401ks came along so she has tracked this

14:30

for the duration of her career and has

14:33

been warning about the downsides of

14:36

401ks pretty much for the duration of

14:38

her career and what exactly was her

14:41

worry well for one thing she worried

14:44

that a lot of people would never even

14:45

have access to 401ks particularly lower

14:48

and middle inome Americans she worried

14:51

that many employers would simply not

14:53

offer them she also felt that even if

14:56

those workers were offered 401ks they

14:59

would not have the resources or the

15:01

financial knowledge to take advantage of

15:03

these plans but she also saw this in

15:05

moral terms she thought that the 401K

15:08

represented an abdication of the social

15:10

contract she believed that workers

15:12

deserve to be able to retire with

15:15

dignity and some degree of Economic

15:17

Security that it was something that we

15:18

owed them as a society and she saw the

15:20

401K as a betrayal of that well help us

15:23

understand the kind of downside risk of

15:25

the 401K that people like giler ducci

15:28

are starting to to worry about and I

15:30

wonder if you can do that by providing a

15:34

counter example to Ted who clearly

15:37

represented the upside of the 401K and

15:40

instead give us an example that really

15:42

embodies the risks of the 401K I think

15:45

that would help us understand this

15:47

skepticism that begins as the 401K is

15:51

being adopted across the American

15:54

workplace okay let's imagine a worker

15:58

named Paul

16:00

the first few companies he worked for

16:01

did not offer 401ks but his current

16:04

employer does the problem though is that

16:07

Paul doesn't make enough money to

16:09

contribute to it on a sustained basis

16:12

makes a mid five figure salary but he's

16:14

got kids he's got lots of expenses and

16:17

he can't really take advantage of this

16:19

401K he puts what he can into it a

16:21

couple thousand here and there MH and

16:23

there is an employer match but it

16:25

doesn't add up to very much because he

16:27

can't contribute a lot to do

16:29

it and life can throw lots of curveballs

16:33

at people and in Paul's case one of his

16:35

kids has a medical emergency health

16:38

insurance won't cover everything and

16:40

he's got this money sitting there that's

16:42

put aside for retirement but he needs

16:44

the money

16:46

now and Paul does exactly what all the

16:49

retirement experts say you shouldn't do

16:53

and raids his retirement fund and the

16:56

401K ends up being a source of emergency

16:59

funds for him mhm he replenish it to a

17:01

certain degree over the next 20 years

17:04

but he's now reaching retirement age and

17:06

his 401k has maybe 20 or $30,000 in it

17:11

which is hardly enough to get him

17:12

through a year let alone to sustain him

17:15

for the length of his retirement and

17:18

he'll have social security too but it

17:20

does not add up to anything like the

17:23

kind of Nest Egg one needs these days to

17:26

retire on

17:32

so this is the nightmare version of the

17:34

401K where circumstances like this

17:37

emergency Paul experiences as well as a

17:40

lack of financial Savvy and ultimately a

17:42

lack of resources means that the 401K is

17:46

not providing a comfortable retirement

17:48

in fact it doesn't seem like much of a

17:49

retirement at all no that's exactly

17:52

right Teresa feared from the start that

17:55

the 401K system would disproportionately

17:59

benefit people who were already well to

18:02

do and would leave millions of other

18:05

Americans with basically nothing put

18:08

aside for retirement and it seems that

18:11

that's where We've Ended up now it's not

18:14

just that millions of people who have

18:15

access to 401ks struggle to save

18:19

millions of other Americans don't even

18:21

have access to

18:22

401ks it's estimated that around half of

18:25

all private sector employees do not have

18:28

retirement savings plans through their

18:31

employers you have a lot of teds in

18:34

America people who earned enough and had

18:37

the you know Financial knowledge to put

18:39

aside a lot of money and who have

18:41

massive nest eggs built up through their

18:43

401ks and other investment vehicles but

18:47

you also have millions of Pauls who've

18:48

got basically nothing and are facing you

18:52

know in in many cases dire circumstances

18:55

as they approach retirement right what

18:57

she feared and what sounds like has

18:59

happened is that the 401K has just

19:01

reinforced the income inequality that is

19:03

so present in American society and there

19:07

would seem to be a little bit of an

19:09

irony to all of this Michael which is

19:11

that as you said when you described the

19:13

birth of the

19:14

401K it was created to Shield high- paid

19:19

Executives bonuses from being taxed so

19:22

perhaps it's not all that surprising

19:24

that even as it took off and became the

19:27

retirement tool of the the rank and file

19:29

worker the 401K remains most effective

19:32

at building the wealth of those who

19:35

already have a fair amount of wealth

19:37

that's a great point maybe we shouldn't

19:39

be surprised that something that was

19:40

created to help Rich guys Shield some of

19:44

their money from taxes has ended up

19:46

helping lots of Rich guys become even

19:50

richer so if as it turns out to bring

19:53

this full circle the

19:55

401K in a very real sense was a mistake

20:00

what are we supposed to do about it well

20:03

for a long time Gillard DUI hoped we

20:06

could get rid of

20:07

401ks and in fact at one point came up

20:10

with a plan to replace 401ks but it

20:12

didn't get very far it was an idea that

20:14

was popular in Progressive circles but

20:18

for many years she was a figure of scorn

20:21

on the right conservatives thought that

20:24

she was attacking the very idea of the

20:26

free market and of individual choice

20:28

lately though some conservatives have

20:30

had a change of heart some significant

20:32

voices on the right have even conceded

20:35

that she actually had a point about the

20:36

flaws of the current retirement system

20:38

who are those voices on the right

20:40

suddenly agreeing with her well one

20:43

prominent figure is Kevin hasset a

20:45

well-known conservative Economist who

20:47

served as one of Donald Trump's chief

20:50

economic advisors when he was president

20:53

after hasset left the White House he

20:55

took an interest in the economics of

20:57

retirement in the United States

20:59

and he became concerned that millions of

21:01

Americans were indeed falling through

21:03

the cracks of the retirement system H it

21:06

has been concerned for some time that

21:07

the country was drifting towards

21:10

socialism and so he felt that doing

21:13

something to help lower and

21:16

middle-income Americans put aside money

21:18

for

21:19

retirement basically would be a way of

21:21

res not not just helping millions of

21:23

Americans but of restoring their faith

21:25

in the capitalist system from what

21:28

you're saying saw the American

21:29

retirement situation in the US as a

21:31

betrayal of a different kind not a

21:34

betrayal of the concept that

21:35

corporations owe their workers a

21:36

retirement but a betrayal of the concept

21:39

that people could believe that a

21:42

capitalist system would provide for them

21:43

in their retirement exactly as Hass it

21:46

dug deeper into the economics of

21:48

retirement he became familiar with

21:50

Gillard DUI's work and he reached out to

21:52

her to strike up a conversation and they

21:55

came up with a quite bold plan for

21:58

addressing ing the needs of lower and

22:01

middle- inome Americans who don't have

22:03

enough put aside for retirement and what

22:05

is their plan this product of these two

22:07

unlikely bed fellows actually look like

22:10

they came up with a really intriguing

22:14

idea the government has a program called

22:16

the Thrift Savings Plan which uh is

22:20

available to all federal employees and

22:23

all members of the uniform services it

22:26

is like the 401K a defined contribution

22:29

plan people set up individual retirement

22:32

savings accounts they put money into it

22:34

and the government provides a

22:37

match killer duci and hasset had the

22:39

idea that you could extend this program

22:42

to other Americans to people who didn't

22:45

have 401K plans or other retirement

22:47

savings vehicles through their employers

22:50

and they could put money in and the

22:53

government could provide a match up to a

22:55

certain percentage and up to a certain

22:56

income threshold hm this would allow

23:00

millions of Americans currently locked

23:02

out of the retirement system to start

23:04

building nest EGS so in this plan

23:06

instead of your company providing a 401k

23:09

or a match for your retirement it would

23:12

instead be the federal government

23:15

exactly and this plan has gained

23:17

traction on Capitol Hill in fact there

23:19

is now legislation before Congress that

23:22

is based on Gillard duci and hasset plan

23:26

and it has bipartisan sponsorship wow it

23:30

underscores the point that despite the

23:32

toxicity of our current politics there

23:35

is growing agreement across the

23:37

ideological divide that something needs

23:40

to be done to help more Americans save

23:43

for

23:46

[Music]

23:47

retirement but Michael here I think I

23:49

have to pause and reflect on the fact

23:52

that this entire episode has been about

23:56

the shortcomings of the 401k and so I

24:00

have to ask why would a program that

24:03

Embraces a 401k style approach be the

24:09

solution to a problem that the 401K

24:12

itself seemed to create well I don't

24:16

think anyone would say that this program

24:19

is going to make you know everyone in

24:21

the neighborhood a millionaire but it is

24:23

going to provide more

24:26

Americans with something of Nest Egg

24:29

something they can retire on that's the

24:31

Hope anyway it's about trying to help

24:34

more Americans put aside enough money

24:37

that they can possibly retire with some

24:39

degree of Economic Security and dignity

24:42

the key point is participation you want

24:44

to give people access to a retirement

24:47

plan give them an incentive to take

24:50

advantage of it right the match the

24:52

match the match is a crucial part of

24:54

this that you seeing your money you know

24:57

grow instantly through the match whether

24:59

it's from your company or from the

25:01

government is a huge incentive to

25:03

actually participate and so you know

25:07

this could make a significant difference

25:09

it really feels like The Saga of the

25:11

401K ends up being like so many

25:14

questions in the United States where

25:16

there's this huge seemingly unresolvable

25:19

tension between a collective problem the

25:23

need for a comfortable life after work

25:25

for millions of people and a solution

25:28

that as currently designed relies on the

25:31

individual to make it happen and even

25:35

the program that expands the government

25:37

401k to all Americans that we just

25:38

discussed doesn't seem like it's really

25:40

going to resolve that inherent

25:44

tension no it won't and at the end of

25:46

the day this all comes down to a very

25:49

basic

25:50

question should we think of retirement

25:52

as a privilege or as a right mhm in the

25:56

1950s 60s and the 70s the Heyday of

25:59

Pensions it seemed that we were moving

26:01

towards an

26:03

answer and the answer was that it was a

26:05

right the 401K system seems to have

26:08

taken us in the other

26:10

direction and so long as we live in a

26:12

world where it's considered a privilege

26:14

it's going to put a lot of the onus on

26:16

workers

26:18

themselves and that's a very hard

26:20

problem to solve for with policy

26:22

measures and perks It ultimately comes

26:25

down to whether individuals have access

26:27

to retirement plan

26:29

and if they have enough money and

26:30

discipline to contribute to them on a

26:32

regular

26:37

basis well Michael thank you very much

26:39

we really appreciate this thank you for

26:41

having

26:49

me we'll be right

26:51

[Music]

26:55

back here's what else you need to

26:57

another

26:59

the president and foreign minister of

27:01

Iran are presumed dead after their

27:04

helicopter crashed in the country's

27:06

Northwest the cause is unknown but it

27:09

occurred in bad weather and thick fog

27:12

which made search and rescue operations

27:15

difficult the crash comes at a fra

27:18

moment for Iran it recently launched its

27:21

first direct attack on Israel suffered a

27:24

devastating terrorist attack and faced

27:27

massive protests against its

27:30

government

27:37

[Music]

27:39

and over the weekend a key member of

27:42

Israel's war cabinet Benny gance

27:45

presented the country's prime minister

27:47

with an ultimatum unless the government

27:49

of Benjamin Netanyahu quickly develops a

27:52

plan to end the war in Gaza Gans said

27:55

that he would quit the cabinet I'm

28:10

in a televised speech gance accused

28:12

Netanyahu of quote dragging the country

28:16

into the

28:17

abyss in response Netanyahu accused G of

28:21

betraying Israel and essentially calling

28:24

for its defeat to Hamas

28:27

[Music]

28:29

yeah today's episode was produced by Rob

28:33

zipco and mu zi with help from Sydney

28:36

Harper and Luke Vander pluk it was

28:38

edited by Mark George with help from

28:41

Patricia willins contains original music

28:44

by Maran Lozano Alicia baup and Dan

28:47

Powell and was engineered by Alyssa

28:50

Moxley our theme music is by Jim

28:52

brunberg and Ben lansberg of wonderly

28:57

[Music]

29:02

that's it for the daily I'm Michael

29:05

borro see you tomorrow