



Retirement Gamble: The Problem with 401(k) Plans

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Just how good are 401(k) retirement plans? According to a number of recent news and magazine articles, they are a bad deal for workers, providing much less retirement security than defined benefit pension plans. Pension plans tend to beat 401(k)s on investment returns, reducing employer and employee costs for the same level of retirement security. 401(k)s come with higher fees and often don't provide the retirement security promised to workers.

The Pennsylvania General Assembly is currently considering proposals to transition future teachers, emergency responders, nurses, and other school and state employees from the state's current defined benefit pension system to 401(k)-type individual retirement accounts. The Keystone Research Center [has explained](#) that such a change will significantly increase future public pension costs for taxpayers. The following articles highlight how 401(k) plans are less cost effective than pension plans and produce less retirement security for working Americans.

[Pension Plans Beat 401\(k\) Savers Silly -- Here's Why](#)

Forbes, June 4, 2013

"Towers Watson, the global human resources consultant, found that pension-style plans beat 401(k)-style offerings by nearly 3 percentage points in 2011, the latest study year. Pensions made investment returns of 2.74% while defined contribution plans lost money, banking -0.22%. It's no fluke. Pension plans often beat 401(k) plans. ... Part of the reason is mutual fund fees. Mutual funds in the plans studied had weighted average expenses of 65 basis points in 2011, a drag which reduced overall returns by 31 basis points. Nearly half of the 401(k)-type plans were composed of mutual funds, compared to just 14% in the pension-style plans."

[Helaine Olen: Why Your 401\(k\) Retirement Plan is Failing You](#)

PBS.org, April 23, 2013

"Q: Some people do hit it big (in the stock market) right?

A. That's mostly a myth. We know from the studies of people who look at this data, roughly 1%, maybe a little less, have the ability to beat the markets year in and year out. That's very unusual. So it's sort of like saying anybody can be Albert Einstein if only they went to the right high school."

[Retirement Gamble: Frontline's Powerful Case for Taking Control of your Financial Future](#)

Time Magazine, April 23, 2013

"Traditional pensions have been supplanted by 401(k) plans, which have proved to be massively ineffective as a primary source of retirement security. Billions of dollars in savings have leaked out of these plans over the years and trillions were wiped away in the market collapses of 2000 and 2008."

[Abolish the 401\(k\): The real crisis facing America's aging society is not Social Security, but private retirement plans](#)

Salon.com, April 4, 2013

"But the risks, including risks from poor investments and the chance that you will retire during a stock market downturn, fall entirely on the individual. Even worse, many working-class and middle-class Americans with 401Ks are stealthily fleeced by money managers, who charge high and often difficult-to-find fees for allocating retirement money among stocks, bonds and other assets."

[The Greatest Retirement Crisis In American History](#)

Forbes, March 20, 2013

"Americans also know the great 401k experiment of the past 30 years has been a disaster. It is now apparent that 401ks will not provide the retirement security promised to workers. As a former mutual fund legal counsel, when I recall some of the outrageous sales materials the industry came up with to peddle funds to workers, particularly in the 1980s, it's almost laughable—if the results weren't so tragic."

[What Will Replace the 401\(k\)?](#)

Time Magazine, March 21, 2012

"With little or no return for more than a decade—and just as baby boomers begin to retire—the savings crisis has pushed us to new levels of despair. More than half the population has less than \$25,000 saved for retirement, according to the Employee Benefits Research Institute."

[Retirement overhaul: 401\(k\)s may not be the answer now](#)

USA Today, October 23, 2009

"Now, we're in a different world," says Ted Benna, a retirement consultant who created the first 401(k) plan in 1980 and is semi-retired. "How are we going to move forward from here? It will be interesting to see. And I am not going to lose any sleep if 401(k) doesn't survive."

The Keystone Research Center is an independent, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania and U.S. economy.