
I Survived the Frontline Broadcast

By Editor Test *Thu, Apr 25, 2013*

The expose's whole approach implied, sadly, that even after three decades of exposure to and participation in 401(k) programs, most Americans are still in the dark about them.

I watched Martin Smith's 60-minute documentary, *The Retirement Gamble*, and participated in a live twitter discussion during the broadcast. Some of the experts who spoke on camera are friends or acquaintances of mine, including Theresa Ghilarducci of the New School, Zvi Bodie of Boston University, and my former employer, Vanguard founder Jack Bogle.

Sadly, the approach taken by the filmmaker suggested that even after three decades of exposure to and participation in 401(k) programs, most Americans are still in the dark about them. There's clearly been a failure of education, but I'm not sure who's to blame.

The hour-long show also left too great an impression, I thought, that Americans are helpless victims of some sort of financial conspiracy. There may indeed be a conspiracy; but people aren't necessarily helpless. It would have been useful if Smith had shown viewers who don't like their 401(k) plan how to implement a successful retirement savings strategy on their own.

It also seemed naïve of the filmmaker to marvel at the idea that 401(k) plans differ so much (in terms of expenses, investment options and matching contributions) from employer to employer. Would he be surprised to discover that health care benefits vary from company to company? Or that compensation varies?

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As for the criticisms voiced in the broadcast, the 401(k) industry should take them to heart and not seek refuge in denial or sophistry. For instance, I believe it's counterproductive for representatives of the industry to play this card: "Small business owners will stop sponsoring plans if there's a \$3 million ceiling on their tax-deferred accounts."

This argument will enable the industry's critics to ask, "Why should the nation's retirement savings policy, financed by \$70 billion a year in taxpayer subsidies, depend on satisfying the evidently unquenchable appetite for tax deferral on the part of a few very wealthy small business owners?"

This "\$3-million-isn't-enough" argument, even if it has validity, will not win hearts or minds. It announces that the 401k system's private/public partnership isn't working. Even if the industry wins this point, it looks churlish. Blackmail is not a winning strategy for the 401(k) industry.

It's not wrong to earn an honest profit. But at least three things are wrong about the current system:

- The plans are presented as an employee benefit even when they are often just expensive products

that are vended at the workplace.

- The tax subsidy isn't producing the desired effect, which should be retirement sufficiency for the mass of Americans.
- The industry enjoys economies of scale that are not necessarily passed along to the consumer. Costs go down, but asset-based fees grow.

The 401(k) system is just one example of several problematic public/private partnerships in the U.S. The same mechanism is at work in the tax-subsidized health care industry and in the tax-subsidized mortgage industry. Sometimes these partnerships deliver the best of both worlds, as hoped. Other times, they deliver the worst.

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