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EDITORIAL

About Your 401(k)

Even before the financial crisis, most Americans were not saving enough for retirement. But the crisis has highlighted, and heightened, the risk of coming up short, as is clear to anyone who has dared to open his or her 401(k) statements in the past year.

Even with recent stock market upswings, account balances are roughly 25 percent lower than before the crash. Such losses are especially harmful to employees who are near retirement and will not have enough time to rebuild their accounts; they will either have to work longer, if they can, or make do with less.

Market losses aren't the only danger. Some employees will end up with smaller account balances because they reduced contributions when times got tough. Fidelity Investments, which manages 11.2 million 401(k) accounts, reported recently that from mid-2008 through the first quarter of 2009, more employees reduced their contributions than increased them. That trend reversed in the second quarter, but over all, employees are still contributing less of their pay than they did last year.

To make matters worse, some employers have cut their 401(k) matches as the economy has tanked. So both employees and employers pulled back, just as stocks were getting cheaper.

In good times and bad, account balances are wiped out when job-changers, including laid-off workers, decide to cash out when they leave an employer. And younger workers tend to borrow from their 401(k), slowing the account's growth and risking big losses — plus taxes and penalty — if they can't repay the loan in full.

As a result of risks and mistakes, most American workers who are relying on 401(k)'s fail to amass anywhere near what they will need for a secure retirement.

That is not to say that the 401(k) system must be dismantled. But reforms that once seemed far-reaching — like automatically enrolling employees in 401(k)'s unless they opt out — now seem quaint. A more thorough revamping is needed.

Tax incentives must be changed. Under current law, high-income employees receive the biggest tax subsidies, and low-income employees the smallest. Replacing the current tax deduction for contributions with a tax credit would still give everyone a tax break, but would shift the benefit down the income scale, presumably boosting the savings of low-income workers.

The Obama administration should also push for comprehensive retirement coverage. Less than half of employees have a retirement plan at work. The so-called universal I.R.A. advocated by President Obama during the campaign would help make a retirement account available to all workers. Pre-retirement payouts from 401(k)'s and universal I.R.A.'s should be discouraged except in cases of real hardship, like disability. One way to do that would be to require employers to roll over a 401(k) to a new account when an employee changes jobs.

A thornier problem is that even someone who steadily contributes to a 401(k) and makes sensible investments can end up with too little — depending on whether the markets are up or down as retirement nears.

A calculation by Gary Burtless of the Brookings Institution showed that a 401(k) participant who retired in 2008 after contributing 4 percent of pay over 40 years and investing in a conservative mix of stocks and bonds would be able to replace a fourth of his pre-retirement income. That is only half as much as a similar worker who retired during the bull market in 1999, but far better than retiring in 1974 when markets were in a swoon.

The only way to avoid wide variations in 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 issue is complex and deserves further study and debate.

The effect of these and other proposed retirement reforms would be to shift risk that is currently borne by individuals onto corporations and the government. That would be anathema to some entrenched corporate interests and their political supporters. But as the recent crisis has so amply demonstrated, having each and every American bear all of the risk is not the path to a secure retirement.