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The Future of Retirement Is Better 401(k) Plans

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By Paul Schott Stevens

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During the past 30 years, 401(k)s and other defined contribution plans have emerged as the primary tool for retirement saving for millions of Americans. Through defined contribution plans and closely related individual retirement accounts, workers have amassed $10 trillion in assets for their retirement security. These self-directed savings plans fit the needs of a mobile workforce.

Yet we repeatedly see critics calling for 401(k)s to be reformed or replaced. The conventional wisdom in some circles is that the shift toward 401(k)s and defined-contribution plans has been harmful to Americans' retirement security.

That “wisdom” is wrong. The fact is, the share of retirees who receive retirement income from our private-sector retirement system (both defined contribution and traditional pensions) rose by almost half from 1975 to 2010, and the median benefit rose by almost one-third, adjusted for inflation. To improve Americans' retirement prospects, the answer is to build upon - not tear down - the 401(k) system.

The proof of 401(k)s' success can be measured in many ways - in the flexibility they give workers, in the assets they've helped workers' accumulate, and in the income they're projected to provide. Economist James Poterba of MIT and his co-authors conclude that “the advent of personal account saving will increase wealth at retirement for future retirees across the lifetime earnings spectrum.”

In my organization's latest survey, more than three-quarters of households with defined contribution accounts or IRAs said they were “very confident” or “somewhat confident” that these accounts can help individuals meet their retirement goals. So rather than replace 401(k)s, policymakers should concentrate on improving them.

The first challenge is to protect the tax incentives that successfully encourage millions of Americans to save toward retirement even as we address the federal deficit.

We also can encourage employers to use automatic enrollment in 401(k)s and to encourage their workers to save a greater share of their pay. We also can improve Americans' ability to make sound decisions about retirement savings and investing. Over the summer, you may have received a new disclosure form detailing your own 401(k) plan's fees. The fund industry was an early supporter of fee disclosure. We also support giving workers realistic projections of the retirement income they can expect from their current and anticipated savings.

Finally, we can broaden access to retirement savings options for those who work for small businesses. One approach would be to create a new, simpler retirement plan that would allow workers who are focused on retirement savings to put away $5,000 to $10,000 a year, tax deferred, without rules and costs more applicable to large plans. This could make it easier for small employers to offer 401(k)-style plans to their workers. The government could also simplify and promote IRAs.

Helping Americans reach a secure retirement is a job for all of us - workers, employers, plan providers and government.

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