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401k The Biggest Scam Ever

December 18, 2009 By: Recession Ready Category: Money and Finances

Topics: 401k, investing, retirement fund, rich dad poor dad, robert kiyosaki, scams

by Robert Kiyosaki

On the cover of the October 19, 2009 issue of "Time" magazine ran this headline: "Why It's Time to Retire the 401(k)." The cover picture was ominous, showing a 401(k) sinking like the Titanic.

I recommend reading this entire article, especially if you do have a 401(k). My concern is that the flaws of this retirement plan will grow into personal tragedies as the first of approximately 75 million baby boomers retire, leading to the biggest stock market crash in history.

But in spite of the apparent problems with the 401(k) plan, the darlings of financial media continue to tout its benefits. The same month "Time" ran its article, "More" magazine's financial guru, Jean Chatzky, wrote an article about using low-interest savings to pay off high-interest credit cards. In the article she states, "There's no better guaranteed return on your money (except, perhaps, a 401(k) match)."

Countering Jean's wisdom of "no better guaranteed return," the "Time" article stated, "At the end of 1998, the average 401(k) balance was $47,004. By the end of 2008, the average balance was down to $45,519." If that is a great guaranteed return, I'm glad I don't have a 401(k). The "Time" article pointed out that $100 in 1998, after inflation, was worth about $73 in 2008, a loss of $27 after ten years. So whom do you believe…"Time" or "More" magazine?

If you are unsure as to whom (and what) to believe, the "Time" article made two more statements worth considering. They are:

1. "The older you are the riskier a 401(k) gets."

2. "Forty-four percent of all Americans are in danger of going broke in their post-work years."

Now, I can hear some of you saying, "But the stock market is going back up. Green shoots are appearing. Everything is fine. The crash was just a correction." For those optimists among you: I wish that all of your dreams come true and you live happily ever after.

I do not criticize the 401(k) plans just to criticize. I write because I am concerned. Let's say "Time" magazine's estimates are correct. Let's say 44 percent of all Americans will go bankrupt after retirement. For approximately 75 million baby-boomers preparing to retire, that means 33.8 million of them will go bust once they stop working. To me, this is disturbing.

While many think the financial crisis is over, I believe the worst is yet to come. In spite of the green shoots in the stock market, the fundamentals of the U.S. government are worsening. I doubt Social Security can afford the avalanche of retiring baby boomers. The Social Security fund is empty, underfunded by approximately $10 trillion. For the first time in 35 years, Social Security will not pay a cost of living increase. And Medicare is projected to face a shortfall as well, of between $65 and $85 trillion.

In 2009, interest payments on our national debt are about $380 billion, which is $1 billion a day in

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I know the Federal Reserve Bank can continue to print more and more money…but city and state governments cannot. This means your city and state taxes will have to go up. If you think your property taxes are high now, just wait five years. I predict that, even if your home's value does not go up, property tax rates will, and higher taxes will do wonders for property values. This means people counting on their home as their biggest asset may be disappointed.

In 1913, when the Fed was created, and in 1971, when President Richard Nixon took the U.S. off the gold standard, the ultra rich were allowed to siphon off our wealth — via our own money, the very thing we work hard for and do our best to save. In other words, with every dollar the Fed prints, our wealth is being drained via increased taxes, debt, inflation, and savings.

A Cash Heist

There are four expenses that keep the poor and middle class struggling financially. They are:

1. Taxes — both apparent and hidden

2. Debt — mortgages, credit cards, and student loans.

3. Inflation — rising food and fuel costs

4. Retirement plans — 401(k) and savings

It is via these four expenses that the rich get richer. In other words, all four of these expenses are a cash heists, the ways the rich use the government to get into our pockets, draining us of our wealth.

The Silver Lining

The silver lining of all this: With a more sophisticated financial education, rather than have taxes, debt, inflation, and retirement accounts as drains on a person's wealth, a person can convert those government-sponsored expenses into elements that work in one's favor. By using the same rules of money the rich use, those four expenses will make you richer. In other words, taxes, debt, inflation, and not needing a retirement plan can make you richer if you use different rules of money. As stated earlier, in 1971 Nixon changed the rules — and so should you.

In closing, the 401(k) has a few good points…but not good enough, in my opinion, given the financial challenges that lie ahead.

Yahoo Finance

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6 Responses

1. **Terry** Said,

Hi and thanks!

I enjoy reading your posts and have been meaning to tell you so here is a late Thanks! You have a lifetime reader here.

Terry

Posted on December 18th, 2009 at 2:41 am

2. **Paul Cowden** Said,

I don't follow your logic at all. If 401(k) performance has been poor, the blame can be assigned to poor investment choices among collective investors who self-direct their 401(k) allocations. Matching contributions to a 401(k) *are* a great way to make money, so long as you don't fritter away the upside on poor investments.

You carp, but what alternative investments do you recommend?

401(k)'s have preferential tax advantages, and help to provide an investment discipline that's geared toward the long-run. What's wrong with that?

Posted on December 18th, 2009 at 11:15 am

M.J. Harris Said,

I think what the author is saying, is that over time it becomes a risky investment. Especially the older are. When you are younger your 401k consists mostly of your contributions. However as you get older it is more exposed to the market. People who are, or are near retirement have lost significant amount of money and future income since the market crash in 2008.

If you expect any market volatility then a 401k may no longer be a good investment for individuals near retirement.

Posted on December 18th, 2009 at 12:39 pm

SoYouThink Said,

By the time people are ready to retire, the vast majority of their wealth is stored in their house and in a 401k/other type of retirement plan. Housing prices have crashed and, thanks to government efforts, are stabilizing now but will simply crash again in a few years. Add in all of the expenses of maintaining a house, the property taxes and the interest paid on mortgages over the years and the result is that most people break even at best on their house. 401ks are not a terrible idea per se but their implementation generally stinks. For most plans, your choices amount to a lot of crappy stock funds, a couple crappy bond funds and money market funds. Like housing, stocks are being held up by government stimulus but they will crash just like housing once the stimulus stops. My 401k has energy and gold funds, which is nice, but they have had disappointing performance compared to just holding the commodities themselves. One example of why they stink is that the #1 holding in the gold fund is Barrick Gold, which I like to call the Citigroup of gold miners in that they do everything and stink at everything.

In the end, people are going to end up with a lot less money than they expected by holding on to their houses and their 401ks. I've read Rich Dad, Poor Dad and it is a pretty weak book overall but there are a few pertinent points. Those who got hosed in the last few years now need to man up. There are no more excuses for not having your act together and understanding what you need to do to be prepared for retirement. If you don't see what is coming next then it is your own fault.

Posted on December 20th, 2009 at 2:54 pm

Mike Said,

The average 401k plan has about $45,000 in it while just over 40% of those have less than $10,000. The company match is becoming a thing of the past. The longer your money is in a 401k, the more exposed to the market it is. If you desire to retire when the market is in a downturn, you would most likely need to get a part time job which kind of goes against the idea of retirement, doesn't it?

Posted on January 31st, 2010 at 4:24 pm

Ken Said,

The measurement stick for whether or not a 401k is worth it:

1. Taxes in the future will not be higher than taxes in the present. At this rate, no way… not without social security and government to go bankrupt. More than likely, property tax and income taxes will have to increase. Possible way to fix taxes. 20% federal tax on all purchases and eliminate the ever-complex tax code. The more you spend, the higher taxes you pay. No loopholes, no complexities, no unequal burdens on the poor versus the rich.

2. Performance of your 401k is higher than inflation. Assuming a modest 3% inflation per year, if you do not match 3% performance, in 30 years, your money will be worth about 10% of the original value!

3. Beneficiaries, probate, and the government. Is your 401k going to your beneficiaries or to probate after you pass away? Probate charges a percentage and inheritance taxes will decimate a 401k savings if you pass away.
Taxes will probably take a large share.

Brainstorm of fixes:

1. Treasury or municipal bonds. Long term yields are guaranteed at 4% or more tax free. Again… might be questionable if you ask about bankruptcies of city or federal government… or inflation.

2. Credit card company CDs. Interesting how much more interest they can give you than traditional banks. Some rates are more than inflation currently.

3. Loan out your money. Can't think of what to do with your money? Invest in an ATM machine business or start performing personal loans.

Disclaimer: None of this is financial advice. Only an expression of frustration at the current system.

Posted on June 7th, 2010 at 2:26 pm

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