

ICI VIEWPOINTS

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Wall Street Journal Story Inaccurately Portrays the Role of 401(k) Plans

By Sarah Holden

The February 19 *Wall Street Journal* article, “[Retiring Boomers Find 401\(k\) Plans Fall Short](#),” is based upon a narrow slice of statistics and anecdotes, painting an inaccurate portrait of the role of 401(k)s in retirement. While 401(k)s are an important and growing part of the retirement system, they are not the sole or even predominant source of income for today’s retirees. Suggesting that 401(k)s are the failed patch in the quilt of retirement security is misleading.

The true picture shows that Americans depend on retirement income from a variety of resources. Americans had accumulated \$4.2 trillion in 401(k) and other defined contribution plans and an additional \$4.5 trillion in IRAs as of the end of the third quarter of 2010. These figures do not count defined benefit plans. Nor do they include Social Security benefits, the largest component of retiree income and the predominant income source for lower-income retirees.

The Baby Boom is no exception to this patchwork pattern. Rather than being “the 401(k) generation”—which implies they spent their full career in a 401(k) world—Boomers are a transitional generation who have experienced a mix of pension coverage during their working careers. Today’s 60- to 62-year-olds typically entered the workforce in the early 1970s, a decade before the introduction of 401(k) plans. For these individuals, for much of their careers, 401(k) plans represent a supplemental component of their retirement accumulations.

To evaluate the 401(k) system fairly, consider what a full career with 401(k) plans might generate for future retirees. Joint ICI [research](#) with the Employee Benefit Research Institute found that more than 60 percent of today’s 401(k) participants in their late 30s to mid-40s, who will turn 65 between 2030 and 2039, will accumulate enough in their 401(k) accounts to replace more than half their salary. Other studies have come to similar conclusions: economists James Poterba of MIT, Steven Venti of Dartmouth, and David Wise of Harvard [examined](#) current and projected 401(k) accumulations and concluded, “Our projections suggest that the advent of personal account saving will increase wealth at retirement for future retirees across the lifetime earnings spectrum.”

We strongly believe that the 401(k) is an important component of Americans’ retirement security—and one that will be increasingly central in the future. But the 401(k) system should not be judged without understanding the full retirement picture. Retirement security is a career-long race that must be won paycheck-by-paycheck—and 401(k)s will help Americans achieve their retirement goals.

- Learn more about [401\(k\) plans](#).
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