
EPI POLICY MEMO

1333 H STREET, NW • SUITE 300 • WASHINGTON, DC 20005 • 202/775-8810 • FAX 202/775-0819 www.epi.org

Bush's Latest Assault on Retirement Security

by EPI Policy Analyst Monique Morrissey
May 1, 2006

President Bush was routed in his attempt to privatize Social Security, but he's found a new battleground. His latest attack on retirement security: attempting to force Department of Energy (DOE) contractors to switch from a real pension to 401(k)-style retirement benefits.

So much for letting the market decide. Contractors provide traditional pension plans because, dollar-for-dollar, they are the most cost-effective way to provide retirement benefits. Administrative costs are low, and professionally managed funds earn higher returns than individual accounts. Plans like 401(k)s save employers money only because they shift costs to employees.

Most employers make employees pay for most of the 401(k)'s cost: they typically offer a paltry 50% match on employee contributions. Three-fourths of 401(k) plan sponsors also pass administrative costs to employees, a major reason why these costs tend to be sky high. A *Los Angeles Times* article (4/23/06 "Fees Eat Away at Employees' 401(k) Nest Eggs") recently estimated that even Amgen, an employer priding itself on its generous benefits, was nevertheless steering its employees into a 401(k) plan that cost each worker over \$400 a year in fees, a profit margin of 55% for Fidelity.

So, why is the administration bullying DOE contractors into choosing a particular kind of retirement benefit? Part of the story is patronage. The same investment companies that would have benefited from Social Security privatization will earn big fees handling the individual accounts of employees who would otherwise belong to pension plans. The other part is ideology. Bush dislikes collective solutions and would rather see every worker fending for himself.

This change should be resisted at all costs. A 401(k) is no substitute for a real pension. The replacement of pensions by 401(k)s is the biggest reason why most workers today will have less retirement security than previous generations. In retirement, a 401(k) will pay only the benefits employees are able to accumulate through their own investments. If the market falls, if their investment choices are poor, if they borrow from their account, or if management and administrative fees diminish their return, retirees can be financially ruined.

The administration has made its hostility to pension security clear. Not satisfied with a slow erosion of traditional pension plan coverage, they have decided to accelerate it. Congress should act quickly before this bad idea spreads to other agencies.