# Crushed Retirements

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**Date :** Jun 8, 2018

The retirement-funding vehicle, 401(k), may be the most recognizable name-in-numbers in the country. In a transition that began in the 1980s, defined-contribution, self-managed 401(k)'s replaced (outside of government employment) defined-benefit, employer-managed plans. Among workers who participate in firm-sponsored retirement plans, the share of defined-benefit pensions dropped from more than 60 percent in 1979 to fewer than 10 percent in 2011; by then, some 70 percent of workers with employer plans had 401(k)'s.

In the 1980s, I was a member of the Management Committee of a large bank when we considered what to do about the increasing incidence of our peers in the financial industry replacing defined-benefit retirement plans with defined-contribution 401(k)'s. We adopted the new industry standard. Somewhat later, while I was on the board of an insurance company that had become increasingly isolated by sticking with our corporate-managed, defined-contribution program, when we gave up and moved to 401(k)s. In both cases, employee surveys correctly indicated that the obliteration of the long-standing defined-benefit pillar of compensation policy would create little fuss.  Employees were more interested in the new plan's portability than by having economic risk shifted to them.

*401(k) risk.* The change in who manages the trillions of dollars retirement funds has had great consequence, particularly in the aftermath of the 2007-09 Great Recession. Policymakers didn't much think about about how information-poor households could adequately manage equity portfolios in times of macroeconomic instability. Readers probably should be reminded here that extremely low dollar-interest rates had pushed highly-rated bond yields below levels adequate to fund most expected retirements. As a result, 401(k)'s were dominated by much higher-return equities.

In this problematic environment, along comes the 2007-09 Great Recession. The dynamics of household-managed 401(k)'s in conditions of extreme instability are not complex. The key is the uncertainty that is rooted in imperfect household information about what was really going on in late 2008 to early 2009 when the S&P 500 equity index declined by 50%. The fundamental question throughout that sickening collapse was whether the stock market would reverse itself and, in a reasonable amount of time, recoup those staggering losses. In other words, should households stay in or get out of the market? Professional advice people received was unsurprisingly uniform: Fluctuations are a fact of life and the best strategy is to sit tight and wait for the rebound. For an extended period, that is what most did. The common story is households looking the other way, no longer opening their monthly 401(k) statements.

But the drop continued into downright frightening losses. Professional advice to stand pat was delivered less confidently, while television was dominated by "experts" who argued that the collapse was structural, that all banks would soon (if they had not already) fail, and that a new depression, preventing a rebound in equity prices, was here. (Why news shows chose to feature the small-minority Cassandras during this awful period – higher ratings has been suggested – is an important public-policy issue.) Households deeply regretted following the advice to stand pat as their retirement plans melted away. Many eventually got their 401(k)s out of equities at what turned out to be near the market's bottom. Angry about huge losses, many vowed never to invest in equities again.

After the stock market rebound began later in 2009, it relatively quickly erased its losses. Many households startled by the stock-market recovery's speed and still deeply afraid of its risks, did not participate. They watched their losses become permanent as more savvy investors' losses were temporary. Millions of households saw their retirement plans crushed. It cannot be surprising that they became bitter and angry with elites who appeared somehow to have avoided the pain. Anger was especially directed at Washington, with its substantial levers of power in the economy, where there was little acknowledgement of the 401(k) debacle and the ruin of retirements.

*Political implication*. From the *Wall Street Journal* (March 6, 2017): "On Oct. 7, 2008, in the cramped TV room of his modest home here, Marty Bannon watched with alarm as plunging stock markets dragged down his shares of AT&T, the nest egg he built during a 50-year career at the company. His five children, including current White House counselor and chief strategist Steve Bannon, had often joked growing up that their devout father, a product of the Great Depression, would sooner leave the Catholic Church than sell those shares. The stock symbolized his deep trust in the company and had doubled as life insurance for his children. As he toggled between TV stations, financial analysts warned of economic collapse and politicians in Washington seemed to mirror his own confusion. So he did the unthinkable. He sold. Marty Bannon, now 95 years old, still regrets the decision and seethes over Washington's response to the economic crisis. His son Steve says the moment crystallized his own antiestablishment outlook and helped trigger a decade-long political hardening that has landed him inside the West Wing, just steps away from President Donald Trump."

Exit polling has revealed a crucial component of Donald Trump's barely sufficient coalition that had no apparent attachment to the NRA, Christian evangelist, anti-abortion, anti-immigration, anti-gay, or racist agendas at the core of the MAGA movement. Neither were these Trump voters callow celebrity-dazzled kids. They were mature (approaching retirement age or already retired) voters who, despite the data showing near full employment and a full recovery from the Great Recession, believed that the economy is broken and that Washington does not care about their problems. They were impressed by Trump's "successful" business career and his eagerness to demean elitist experts. It is not an unreasonable hypothesis that many of those disgruntled voters are among the millions whose retirement plans were badly damaged by 401(k) losses incurred when they chose to get out of the stock market at the worst possible time. Cashing out of equities near the bottom of the S&P index's *50%* decline turned temporary losses into a permanent crushing of their economic prospects. If so, absent the ascendancy of household-managed 401(k)'s, Trump would have lost. It wouldn't have been close.

Blog Type: Policy/Topical Saint Joseph, Michigan