Growing share of US workers forced to tap retirement accounts

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A growing number of American workers are tapping their retirement savings accounts before they retire, due to economic distress. The *Washington Post* reported Tuesday that more than one in four workers with 401(k) and other retirement plans are cashing them out or taking out loans against them to pay for basic necessities.

The *Post* report, based on a study due out this week from the financial advisory firm HelloWallet, notes that workers are draining nearly a quarter of the estimated $293 billion that they and their employers pay into retirement accounts each year. The money is going toward mortgages, medical bills, college tuition, credit card debt and other expenses.

The news comes as the Obama administration signals its willingness to reduce future cost-of-living increases for Social Security recipients and raise the Medicare eligibility age from 65 to 67, moves that will spell economic hardship for increasing numbers of American seniors as they reach their “golden years.”

Data provided to HelloWallet by Vanguard, one of the largest managers of 401(k) accounts, shows that the number of workers taking out loans or cashing out their accounts has grown significantly in the wake of the recession, rising by 12 percent since 2008.

One-third of workers in their 40s—i.e., some two decades before retirement—are depleting their 401(k) and other accounts to make ends meet.

Low-income workers are the most likely to cash out their retirement plans to pay for non- retirement expenses. HelloWallet found that 30 percent of households earning less than $50,000 a year had done so, while only 8 percent of households earning more than $150,000 had cleared out their retirement accounts.

Those taking out loans against their retirement funds must pay them back with interest. Withdrawing the money outright incurs a stiff penalty, usually 10 percent; the funds withdrawn are also subject to federal income tax. Workers and their families end up being financially penalized even as the funds that are supposed to be there for them in retirement dwindle in value.

According to a survey of 110 large employers by human resources consultancy firm Aon Hewitt in 2010, nearly a third of enrolled employees had an outstanding loan against their retirement account. Nearly 7 percent had taken “hardship withdrawals”—a 40 percent increase since the recession. About 42 percent had cashed out their plans when they changed jobs instead of rolling them over.

Increasing numbers of American workers have come to rely on 401(k) retirement accounts, created by Congress in 1978, as the vast majority of employers have eliminated traditional, defined benefit pension plans. In 1980, about 80 percent of private sector workers were covered by a pension that paid them a fixed benefit, calculated on the basis of their salaries and years worked.

Today, only about 20 percent of workers have a traditional pension. In most cases, new hires are not offered a pension, as employers wait for older workers with the benefit to retire or accept buyouts. Some corporations have also raided the pensions funds of workers through bankruptcy proceedings, leaving retirees with only their Social Security checks to survive.

About a third of all American households participate in a 401(k)-type plan, according to the *Post*, for a combined total of $3.5 trillion in assets. A study by the Center for Retirement Research at Boston College found that the typical household on the eve of retirement has an average of only $120,000 in savings set aside for retirement, only enough for about $7,000 a year based on average life expectancy.

For those workers and households that have been forced to either deplete their 401(k)s or cash them out completely, retirement prospects are even more bleak. The average monthly Social Security check is about $1,230, or $14,760 annually, according to the Social Security Administration. For a single retiree, this is only 25 percent above the Health and Human Services Poverty Guideline for a one-member household—$11,170, already woefully inadequate.

For many more retirees—including those who spent their lives in low-paid jobs, or who were out of work for a considerable length of time—monthly Social Security checks will be much lower or nonexistent. Undocumented immigrant workers who are not enrolled in Social Security have virtually nothing to fall back on in retirement.

According to the US Census Bureau's Supplementary Poverty Measure, 15.1 percent of people 65 years and older were living in poverty in 2011. This number can be expected to rise in the sluggish economy, forcing millions to depend on subsidized housing, food stamps and other social programs targeted by the government for cutbacks. As the vast majority of working families struggle to make ends meet, corporate profits and CEO pay have all returned to or surpassed pre-recession levels.