INVESTOR'S BUSINESS DAILY

President Obama's Cat-Food Future For Retirees

January 16th, 2013

The Obama Economy: Americans are drawing down their 401(k)s for nonretirement needs in record numbers, just as Social Security goes bust. This portends poverty for millions as the White House fiddles. Cat food, anyone?

One out of four U.S. workers with 401(k) retirement savings accounts has been forced to cash them out or borrow from them at high costs just to stay solvent.

The Washington Post, citing a report from financial advisory firm HelloWallet, said the withdrawals have drained $70 billion, or an astonishing near-quarter of the total $293 billion, in America's retirement accounts "undermining already shaky retirement security for millions of Americans."

It comes at a bad time, because as Monday's Page 1 IBD story by Jed Graham warned, as of this year, new retirees will outlive Social Security's official trust fund, a bankruptcy that will force a 25% cut in benefits.

Some 69% of retired workers already are dependent in "major" part on Social Security as their main retirement income, according to a 2012 study by the Employee Benefit Research Institute, with worker savings off sharply for those in the below-$35,000 income bracket.

Why is this happening? It's tempting to blame workers financial incompetence for these early cashouts, as some of the Post's quoted experts do. But harder evidence points to Obama's economic policies.

For one thing, jobs remain scarce.

A tax penalty for withdrawals as high as 45% suggests workers are most likely to be cashing out from necessity, not irresponsibility. The withdrawals coincide with a sharp rise in workers taking early retirement or going on disability simply because they can't find jobs and their unemployment benefits have run out.

Another problem is Social Security itself and its low returns on contributions. U.S. workers contribute 12.4% of their income to Social Security, but get retirement checks so low they must direct another 5% to 10% to 401(k)s, eating into their take-home pay.

And that's before the looming 25% cut in benefits. In privatized systems, such as Chile's, workers put just 10% of their incomes toward personal retirement accounts. They don't need extra 401(k)s, as their private pensions yield close to 80% of their working salaries.

The Cato Institute notes that the Obama administration's high-tax, high-regulation, anti-business climate has depressed many stocks, which in turn has depressed the values of 401(k)s in addition to its tax hikes on capital gains. Worker pensions have been hit just as hard as "the rich," providing an incentive to withdraw from 401(k)s as investments decline.

Incredibly, the Democratic intelligentsia's response has been to declare that the withdrawals prove a need for a government takeover of private accounts.

Congressional Democrats constantly threaten to expropriate 401(k)s and replace them with Argentine-style "guaranteed retirement accounts." Alarmed savers on Internet financial bulletin boards have started talking of emptying their 401(k)s as a defense.

But the problem isn't financially foolish workers. It's bad policies that make the problems worse. And none of this is being discussed rationally in Washington.

Even so, as sure as the sun will rise, it's a coming disaster for millions of people in America who will spend their retirements in shocking poverty.

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