

## **Express News – May 2009**

### **Article by Mickey Roth**

There have been two recent press reports related to the current economic quagmire in which we find ourselves that have jumped out at me. That is because both of them highlight how much of this quagmire is the result of really dumb and incredibly careless actions and attitudes. The first of these was a piece a few weeks ago on “60 Minutes” about 401(k) plans and the second was an article a couple of days ago in the International Herald Tribune about credit card companies beginning to raise fees on customers who pay their bills in full every month. Let’s look at what was said.

The 60 Minutes piece was prompted by the fact that today the primary source of funds for retirement is no longer a pension. It is a 401(k) plan. The 60 Minutes program was lamenting the fact that the precipitous drop in the stock market had devastated very many 401(k)s and made it difficult, if not impossible, for the plan owners to retire. The Herald Tribune article was noting that the rise in the number of defaults among credit card users was forcing card companies to search for new revenue sources. And this has led them to their “best” customers; those who pay in full every month. The card companies want to levy more fees on these people to try to make up for losses on cards used by their less creditworthy clients.

There is a common thread here; people must take responsibility for their actions.

A 401(k) is a tough deal. It means that your employer is no longer saying to you, “Everything will be OK when you retire because I’m going to promise you a certain sum (a pension) every month for as long as you live.” Instead, your employer is saying, “You need to build your own account that will do what that pension would have done, and I’ll help a little with that.” So all of a sudden, each employee needs to grasp certain facts; I need to build a large portfolio over years. It must be big enough so that I can live off an annual distribution of about 5% of its market value. That means, if I want \$40,000 a year I must have a portfolio worth \$800,000. I must choose investments that can survive a year like 2008 because if I don’t, no one will bail me out. And, perhaps most importantly, I must never borrow from my 401(k). Every 401(k) plan allows borrowing but, its growth is far too important to be wiped out by borrowing against it.

Then there are the credit card companies. They must come to grips with a very simple truth; it is stupid to loan money to people who cannot pay it back. That goes for mortgages as well as credit cards and the fact that it has been so roundly ignored is incredible. One amazing fact is that people declaring bankruptcy are routinely solicited for credit cards because they are “debt free.” If those companies try to recoup their losses by levying additional fees on good customers, they are opting for trouble. Someone else will want and will successfully solicit those good customers simply by offering an intelligent service without stupid fees.

It is amazing what we’ve gotten ourselves into and it is amazing how just a bit of common sense and personal responsibility can turn it all around.