REVIEW & OUTLOOK

401(k) Hoops

We admire men who pull themselves up by their bootstraps. That includes former Goldman Sachs head Jon Corzine, who made so much money with clever investments that he could spend $65 million to buy a New Jersey Senate seat.

Mr. Corzine's investment strategy has been on our minds, given his latest Enron-inspired proposal to restrict employees from investing more than 20% of their 401(k) money in a single stock. Just for fun, we went back to the Senator's financial disclosure records for 2000. Imagine our surprise to learn that the majority of Mr. Corzine's publicly traded assets were sunk into just one stock—Goldman Sachs.

In other words, Mr. Corzine wouldn't be as rich as Robert Rubin if he'd had to follow the financial rules he now wants to impose on everyone else. He might not even be a Senator. Which is just one of the reasons to be skeptical of his and other proposals to make it even harder to save for retirement. Another reason is the argument, made by Mr. Corzine, Senator Hillary Clinton and others, that they have the right to order the rest of us around because our 401(k) benefits are a government "subsidy."

Jon Corzine
Jump or else

This claim could sure stand some parsing. Their logic seems to be that since 401(k) contributions are made with pre-tax dollars, and those dollars can also build up tax free over time, they constitute an act of federal charity. But what Mr. Corzine is really saying is that the government owns all of your income: Whatever it generously decides not to tax is a "subsidy." And because your paycheck is therefore a gift from politicians, they have the right to tell you what to invest in.

Maybe Mr. Corzine was so busy watching his Goldman shares skyrocket that he missed how 401(k)s began. They (and IRAs and other savings vehicles) were designed as a way to keep Washington's greedy hands *off* your investments. Without those loopholes, anyone trying to save for the future gets hit with a double whammy: The money is taxed first as income, and again when any savings investments earn interest, capital gains or dividends. The better investor you are—and the harder you work to save—the more the government takes.

And so Washington graciously agreed to give savers a little break. Not that politicians made it easy. Today, participating in a 401(k) means jumping through hoops that range from limits on how much you can contribute to what investment advice you can receive to when you must start disbursing the funds. Now Senator Corzine wants to add even more hoops, and all in the name of *helping* investors?

In any case, it's not as if 401(k)s are untaxed. The minute you start withdrawing from your retirement fund—and it is mandatory at age 70 and a half—every penny is subject to tax at ordinary income rates. That top rate now stands at 38.6%, and even when President Bush's tax cuts are fully phased in it will fall only to 35%.

With more workers starting retirement plans early in life, more will retire with total IRA and 401(k) savings that push them into higher, more confiscatory tax brackets. If Senator Corzine really cared about making sure employees had enough when they retired, he might try reducing these retirement tax rates. Instead, the millionaire Senator was in the front lines battling Mr. Bush over last year's cuts.

And 401(k) taxes don't stop there. Should you die with anything left in your retirement fund, your kids will pay even higher taxes. Any retirement funds they inherit will be subject to estate taxes, and then they will also have to pay federal and state income taxes, which will probably range from 40% to 50%. Combined, income and death taxes could boost what your kids pay on the remainder of your 401(k) to more than 80%. Some "subsidy."

If anything, Mr. Corzine was on to something when he kept his money in his own company. According to the nonpartisan Employee Benefit Research Institute, company stock is a boon to workers. When company stock is available in a 401(k) plan, it tends to produce portfolios more heavily weighted toward equities. The result is a larger expected rate of return and therefore a larger expected retirement income.

Of course, diversification is usually wise, to avoid the occasional Enron fiasco. But many company stocks, like those of Proctor & Gamble or General Electric, *are* diversified; the companies operate in hundreds of different fields and products. Others are just good bets: Try telling the 35-year-old millionaire retirees at Microsoft that they made a bad investment decision.

The bigger point here isn't what to invest in but who should make that decision. The benefit of 401(k) plans is that employees can tailor them to their own needs. A 25-year-old with decades to go in the workplace can afford to be much more aggressive about investing than a 58-year-old. Mr. Corzine's greater-hoop theory of investment would substitute his judgment for everyone else's.

Mr. Corzine's office says he's free to invest how he wants, because his money isn't in a "subsidized" 401(k). Good for Mr. Corzine that he'll be able to retire on Goldman Sachs stock. But since the rest of us can't, we don't need more Corzine hoops; we need more opportunities to save and fewer taxes on those savings.