

Where Does Your Nest Egg Lay?

For 20 years, 401(k) plans have been a great way for employees to save tax-free money for retirement. Workers whose companies don't offer pension plans find 401(k)s to be an excellent alternative because they can be moved from job to job and employees have control over their assets. In light of the Enron fiasco, President Bush and many Democrats agree on at least one thing: The nation's 401(k) plans need modification. However, the Bush administration and Barbara Boxer, a Democratic senator from California, have different opinions.

Boxer proposes to cap the amount of any one company's stock an employee can own at 20 percent. (Carolyn

Lochhead, *Rocky Mountain News*, Feb. 26, 2002) Many Microsoft workers became millionaires by investing in company stock. Most executives make a major-

ity of their money by participating in stock options and limiting workers' investment percentages. The cap would keep average workers from accumulating a great deal of wealth.

Boxer also proposes limiting the employer's tax deduction for company-matched funds from 100 percent to 50 percent (Lochhead). Most of the money employees at Enron had in stock came from their own purchase of the stock, not from the company's 50 percent match. Many Enron workers lost all their retirement savings as a result of the company's bankruptcy. The dollar amount of their collective losses is estimated to be more than \$1 billion (Lochhead). Boxer cites a lack of diversification as the reason Enron employees suffered losses in their retirement plans.

Bush's proposal would not cap the amount an employee could hold in company stock, and he would keep the tax deduction at 100 percent. But his plan would allow employees to transfer out of company stock after three years (Lochhead). These changes could cause severe problems for the business community. One issue is that smaller companies would be forced to buy back stock from employees, which could cause cash flow problems. This, in turn, would discourage company-matched contributions.

The fact is that changes must be made that will give workers optimal opportunities to invest in their retirement while maintaining control over their decisions. Furthermore, the reforms must provide incentives for companies to offer 401(k) plans and to be able to match employee contributions. As president of the PDCA, I would like to encourage everyone, employers and employees, to fully understand their retirement plans. It's your future. Don't put all your eggs in one basket.



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