Doug Sutton has a small smile on his face as he uses his card key to unlock a brightly lit room.

We are deep inside a secure building. I have come to the room that during the past four years has been the source of a lot of emotional tumult: hope, expectation, and smug satisfaction; then surprise, uncertainty, and disappointment so thorough that the results can’t even be faced. This is Doug Sutton’s domain, and the emotions aside, he is rightfully proud of it.

We step into a low-ceilinged room about the size of a Gap store at the local mall. Parked here and there are enormous rolls of paper. They are squat, the shape of rolls of toilet paper, but each one of them is shoulder high. The rolls of paper bear the distinctive, soft-green color of Fidelity’s 401(k) account statements. It is thrilling; it is unnerving; it is odd. Hundreds of pounds of 401(k) statements—blank, waiting to receive the numbers, waiting to deliver the news.

Forget CNBC, the Wall Street Journal, or even the investment portfolio that Quicken updates on your computer screen each day. In reality, the news about the market that really matters, the news that determines our sense of financial well-being, comes to millions of us four times a year from this unassuming room on top of a wooded hill, at the edge of rural Kentucky, 565 miles south and west of Wall Street.

This is the room in Covington, Kentucky, where Fidelity prints tens of millions of 401(k) statements every year, then zings them automatically into envelopes at a breathtaking pace and sends them forth to our mailboxes, from which they make their way to our kitchen tables. Where they lie, an invitation and a taunt. How is your 401(k) doing these days, anyway?

Fidelity is the number-one provider of 401(k) services in the country, and one in five people who have a 401(k) have it with Fidelity. I myself get two 401(k) statements from Fidelity. The operation behind the printing of those statements is a show of such technological hocus-pocus that it is distracting, absorbing. Fidelity doesn’t just print 401(k) statements here, it prints almost everything that’s part of its business—daily trade confirmations, brokerage-account statements, 250 million envelopes of material a year, including 33,000 checks a day, for people taking a little of their money back from Fidelity.

The print load is so demanding—one billion individual images a year, which comes to 2.75

What’s the most powerful symbol of a troubling year in finance? There are many candidates, from disgraced Wall Street analysts to CEOs in handcuffs. But few symbols rival the unopened 401(k) statement—a quarterly window into the personal wealth of millions of Americans. Now, if people would just look through that window. By Charles Fishman Illustrations by Barry Blitt

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million pages a day—that the lights in the print room never go out. Each of 14 printers can print 1,060 pages a minute—1,060 individual 401(k) statement pages showing “Your Account Summary” and “Your Asset Allocation” and the always-popular “Market Value of Your Account.” The statements are moving way too fast to be read—company logo, recipient name, account values. They blur past at 17 per second, the whole river of pale-green page ones flipped midstream and fed into the next printer, where all of the page twos are printed, also at 17 per second. Some brain inside the printer manages to read the coding on each page and grab the correct page two on the fly, so that only Charles Fishman’s page two gets printed behind Charles Fishman’s page one. The printing process is so fast and so intense that the accumulating stack of statements is warm to the touch.

Scott Arnett is the day-shift work leader in the print room. He has a 401(k), and he puts 7% in and takes the 5% match from Fidelity. He prints 401(k) statements for a living. These days, when people find that out, “they say, ‘Wow! What can you do about the numbers on my statement?’” Couldn’t we all use a little help from Scott Arnett before our statements leave Covington? I sure could. In July of this year, I sent $874 to my 401(k) account. My employer sent another $291. Total cash deposited with Fidelity: $1,165. In that same month, though, the investments in my 401(k) account dropped in value $1,289. So despite sending more than $1,100 to my 401(k), I had less on July 31 than on July 1—$124 less.

It would be hard to imagine a more efficient means of making money evaporate. I think of it as my Amazing, Disappearing 401(k). And that is the real investment story of 2002 (and of 2001 as well). Oversold IPOs, Wall Street firms riddled with conflicts of interest, and CEOs with overly generous retirement packages—those are just so many headlines. The 401(k) is personal. You don’t have to be an employee of Enron or WorldCom to feel as if your 401(k) account was its own miniature version of the “market bubble” and that someone has pricked it, so that even though you continue to pump money in, that money is leaking out.

If there is a half-joking, half-anxious symbol of the state of personal finance in America in 2002, it is the unopened 401(k) statement. My best friend has two degrees from Harvard, his wife works for a brokerage firm, and their statements sit stacked up. “I can’t look,” he says. How did this happen? How did the 401(k) go from being everyone’s personal lottery ticket, a symbol of the power of democratic capitalism, to a symbol of financial disappointment little different from a late notice from a bill collector? (Most people don’t open those, either.) How did that odd mix of numbers, parentheses, and the letter K come to be such a part of common discourse that, with just six characters, it sums up a whole era of exhilaration, excess, and disillusion?

Is the 401(k) still safe? Is it doomed? Is it a path to a comfortable retirement? Or is it just a pyramid scheme? (For the conspiracy minded: The number-one provider of 401(k) accounts is Fidelity. Its symbol: a pyramid.) I went on a journey to find out. I slipped into a meeting of employers and 401(k) providers to hear what they say about us “participants” behind closed doors. I went to enrollment meetings, talked to random strangers about their accounts, and went inside two of the largest providers of 401(k) accounts. I used the Internet to calculate over and over how much I need to save to have $1 million when I retire—doing the kind of math in 10 seconds that used to take someone skilled an hour. I even made a kind of pilgrimage—to visit the man who invented the 401(k) account, to see if he could provide insight, or at least reassurance. Because, frankly, I love my 401(k) account. And I want it to be okay.

The 401(k): Behind the Numbers (I)

As of the end of 2001, the best estimate was that there was $1.6 trillion saved in 401(k) accounts. Considering that 401(k)s have only been around since 1981, that’s a pile of money. As commonplace as the idea of “billions” has become, you don’t hear “trillions” very often. According to the Federal Reserve, the value of the U.S. stock market is about $15
trillion—so from a standing start 20 years ago, 401(k) accounts now amount to the equivalent of 11% of the value of the stock market.

And there is something special about that $1.6 trillion: It’s ours. It doesn’t belong to corporations or rich people; it isn’t in pension funds controlled by employers.

But if you do some simple arithmetic on that sum, it’ll sober you right up. About 40 million people have active 401(k) accounts. That’s roughly the same number of people currently receiving Social Security retirement benefits.

Those two groups aren’t connected—except in this way: The 40 million Social Security recipients are being paid about $31 billion a month in benefits. That’s an average Social Security retirement check of $800 a month—rudimentary income at best.

The $1.6 trillion that we’ve so far saved in 401(k) accounts represents just 52 months of retirement benefits for the 40 million of us—at the level of Social Security. That’s less than five years of retirement at about $800 a month. I don’t know about you, but I sure hope to be retired for more than five years, and I hope I’m living on more than $800 a month.

It’s amazing how small that big number—$1,600,000,000,000—can be made to seem with a pencil and some quick long division.

There’s another problem. Let’s say we all save enough, and invest smartly enough, to increase our 401(k)s to $500,000 at retirement—a few decades from now. The good news is that sum will comfortably throw off $25,000 a year in income virtually forever.

But the astonishing news is this: Even if it’s just the 40 million of us doing that saving, we’ll need to save nearly $20 trillion—more than the current value of the entire stock market.

The Allure of Free Money

Our attitudes about money are as individual, complicated, and stubborn as our attitudes about love—but we’re a lot less open about money. We routinely talk about our love lives with our cubicule mates; we never pass around our pay stubs. That makes the nearly universal embrace of the 401(k) particularly impressive. The 401(k) has become almost a new form of currency. It is the way we talk about our retirement planning—it’s often the reason we talk about retirement planning—and it is the way we think about saving and judge our progress. The term has become a shorthand way of talking about the participation of ordinary Americans in the stock market.

The 401(k), quite simply, has become an institution, a cultural icon. The term “401(k)” has appeared in 18,178 newspaper and magazine stories this year alone, through the middle of September. That’s more often than Enron scoundrel Kenneth Lay (15,711) and more often than Britney Spears (15,214). 401(k) popped up in a story about a glut of rental apartments in Provo, Utah; in a column on Augusta National not allowing women as members; and in a story about ‘N Sync-er Lance Bass being dumped from his trip to the international space station. And that was just in a single day. (My favorite recent reference comes from James Young, guitarist for the classic-rock band Styx. Young recommended his band’s music, at a head-clearing “115 decibels in concert,” to get past the grief of your “401(k) crashing.”)

I started my first 401(k) in 1987, while I was working for the Orlando Sentinel. The appeal was instantly clear to me: free money. The newspaper matched contributions, as most employers do, 50 cents on the dollar, up to 6% of your salary. If I saved 6% of my salary, the Sentinel kicked in another 3%. That’s a 3% raise, just for the asking. I’ve worked for many years in the tightfisted business of newspapers and magazines, and many’s the year that I haven’t gotten a 3% raise. If you don’t do the 401(k), if you don’t take the match, you’re just leaving money on the table. Fold in the automatic deduction—savings whisked away before I see it—the tax break, and the fact that the money is locked away so that it can’t be splurged on a vacation or a new car, and you’ve got something pain free that makes you feel good. I not only enrolled in the 401(k), I became a 401(k) missionary—I prodded, goaded, and cajoled my colleagues into participating. I even did the math with them. The woman who would become my wife—who is in a 401(k) because I delivered the 401(k) forms to her desk and stood over her while she filled them out—marvels to this day that she has saved five figures without sacrificing a single important shoe purchase.

Nearly 70% of the people who are eligible for a 401(k) enroll—but the 401(k) is more than popular. It reshapes people’s behavior, perceptions, and expectations. No one regrets having a 401(k). More than that, the very act of saving for retirement causes you to think about how you’re going to take care of yourself 30 or 40 years from now, something most of us would never do until way too late. My wife is amazed at what she’s saved; I’m amazed that she isn’t constantly thinking about how many pairs of shoes her 401(k) would buy. In fact, with more years of work ahead of her than behind her, and with a nice start on saving, my wife is increasingly aware that she’s not saving enough.
The 401(k): Behind the Numbers (II)
Want some good news about the 401(k)? It really is your personal lottery ticket. Consider for a moment just one person, a 30-year-old woman. Let’s say that she earns $50,000 a year. She probably doesn’t earn that much at 30, but she will earn that, and more, over the next 35 years until she retires at 65. So let’s say that on average, she’s earning $50,000 every one of those years. Let’s say she’s got $10,000 in savings, and she does the typical 401(k): 6%, with a 3% match. She collects an 8% return, on average, for 35 years.

When she’s ready to retire in 2037, she’ll have $1,023,200 in her 401(k). That number is a miracle in several ways: On a conservative post-retirement return of 5%, the $1 million will produce $50,000 a year to live on in retirement. She will have saved enough to sustain her income virtually forever. What’s more, she’ll have saved $1 million while having earned just $1.75 million during the time that she saved it. She’ll have made herself a millionaire by putting away less than $100 a week.

Ignorance Is Not Bliss
The hottest thing in the sprawling and mostly hidden 401(k) industry is education. If the past couple of years have made any group more jittery than us 401(k) participants, it’s our employers. For one thing, they have fiduciary and legal responsibility for providing good 401(k) investment options, so they’re worried about being sued if we’re disappointed. What’s more, if you go to the trouble and expense of providing a retirement plan, you want your employees to be able to use it to retire. Employers think that they can settle their own stomachs by teaching us about investing and retirement planning.

The Vanguard Group manages 401(k)s for 1,452 companies, including such sprawling plans as FedEx (100,000 participants). At Vanguard, they tackle our education without illusion. Says Barbara Fallon-Walsh, who is in charge of participant education, “We live and breathe this stuff every day. Unfortunately, our participants do not. There’s not a huge level of engagement. It’s hard to touch people. We can print pretty materials, but do people read them?” Here’s how seriously Vanguard takes education: To invest the company’s total assets of nearly $600 billion, it has 200 people. To educate its 401(k) customers about their 401(k)s, it has more than 250 people.

Outside the calm, orderly campuses of Fidelity and Vanguard, 401(k)s intersect with the reality of bills and babies, of getting downsized or divorced. In the real world, 401(k)s are much more complicated than they seem.

In a conference room in the Sofitel hotel in North Houston, Marbe Cherry is talking to 35 hotel workers—kitchen staff, housekeepers, maintenance men—about their 401(k)s. It’s an enrollment meeting, and although some people have come to sign up, most are already in the plan. They’ve come to listen to Cherry give an impassioned explanation of the importance of saving, the basics of investing, the absolute necessity of diversification. She does the whole thing in Spanish. It’s a tough crowd. Most everyone is an immigrant, and the education level and earnings are modest. The mythology can be hypnotic.

Says Cherry, who’s done 401(k) meetings full-time for seven years: “I had one guy stand up at a meeting and ask, ‘Which fund has Budweiser in it? Because my neighbor drinks a lot of Budweiser, and I want my money in that fund.’ “At this meeting, a waitress signs up for the 401(k). She tells Cherry that she did not sign up last time because at that meeting, “someone told her that if you invest in Coca-Cola, and the company breaks, you can lose all your money.”

Cherry works for a small Atlanta company, Total Benefit Communications, which has provided 401(k) literature not just in Spanish, but also in Polish, Vietnamese, and Navajo. Cherry is one of 14 children of Mexican-immigrant parents with second-grade educations. She often starts meetings with her own background as a means of reassurance and connection.

“For these people, taking $10 out of their paycheck and telling them they’re not going to see it again for 20 years—that’s a leap of faith for them. They look right at me and say, ‘I’ve never seen you before.’ ”

“I tell them the money is theirs, that it does not matter where they retire—even if they leave the country. I tell them it doesn’t matter if you’re in housekeeping and they catch you sleeping on a bed one day. The money is yours.”

As Cherry is packing up, the head of HR for the hotel comes up to ask a question. This woman has been at the hotel for 18 years, she’s been in the 401(k) for 12 years, and she’s recently taken out a loan for a car. Now, her contributions are going to repay the loan she made to herself. She’s not adding anything beyond that to the account.

Her question for Cherry: “How can my account go down if I’m not investing, if I’m just repaying the loan? Can the balance go down when the stock market goes down anyway?”

Cherry turns to look at the woman, one of whose jobs is to explain her company’s 401(k) to her employees. The question is starting in its ignorance: Of course the balance can go
5 Questions About 401(k)s

People who live and work in the world of the 401(k) love to study their world. Fidelity Investments, for instance, this year issued a report on the impact of company stock in 401(k) accounts. It is 52 pages long, with 66 separate data tables. The result of this propensity to study the 401(k) is a library of data, information, and trivia. Here, then, are answers to five basic questions about the 401(k) economy.

1. **Given the market's performance, how's the national 401(k) account doing?** Not too badly, in fact. The Dow is down 27% since the end of 1999. At that point, total assets in 401(k) accounts were $1.82 trillion, according to Cerulli Associates. A year later, the national 401(k) held $1.74 trillion—down just $80 billion from the year before. And at the end of last year, the total was $1.64 trillion. So from its 1999 peak, the national 401(k) has drifted down 10%—not terribly bad, even considering that market losses were offset by employee and employer contributions.

2. **How good a job does 401(k) money do of propelling up the stock market?** Hard to say, but by one measure, it's not particularly important. Investment Company Institute estimates that we sent $78 billion in new money into our 401(k) accounts last year that went into mutual funds. That number hasn't changed all that much: It was $77 billion in 1998. It comes to about $300 million in new money every business day to mutual-fund managers who buy stocks. To ordinary people, that’s a lot of money. But an average day at the NYSE and Nasdaq markets sees $70 billion change hands, so $300 million represents less than 1% of the day’s trading.

3. **How much do people pay into their 401(k)?** According to the Vanguard Group, the average contribution to a 401(k) by an employee is 7% of pay. But the spread is significant: Employees with the lowest incomes—those making less than $30,000 a year—contribute 5%, on average. Those who earn incomes over $100,000 contribute 10%.

4. **How much choice do we have, really?** At Fidelity, which administers 8,520 corporate 401(k) plans, the average number of investment options in a plan is 12, up from 7 in 1995. But the vast majority of savers use just a few of those options. At Fidelity, in the latest numbers, 25% of 401(k) participants put all of their savings in just a single investment option. Another 18% use two, and another 18% use three. So 61% of participants divide their savings among three or fewer options.

5. **What’s the next big thing?** Some companies, in an effort to “encourage” 401(k) participation, have what is called “negative enrollment,” whereby every employee who qualifies is enrolled, unless that employee fills out the forms to opt out. McDonald’s was one of the first to use negative enrollment, although the company has since stopped doing it. In a recent survey by William H. Mercer, the HR consulting firm, 6% of companies with 401(k)s use negative enrollment.

To examine the data on Fidelity’s 401(k) participants in detail, visit Fidelity on the Web (www.buildingfutures.fidelity.com).
providers don’t rely on the 401(k) alone. Employees, two of the most important 401(k) from any 401(k). For the welfare of their own salaries to a retirement account that is separate and Vanguard contributes 10% of its employees’. But Fidelity also provides a pension program, Vanguard, employees have 401(k)s, of course.

You might want to double up on your deferral.

The Father of the 401(k)

What in the world does “401(k)” mean, anyway? It’s a standard reference to a part of the total body of federal law, the U.S. Code. The full “address” is Title 26 (the tax code) of the U.S. Code, Subtitle A, Chapter 1, Subchapter D, Part 1, Subpart A, Section 401: “Qualified pension, profit-sharing, and stock bonus plans.”

Subsection K is titled “Cash or deferred arrangements.” I’ve been to visit 401(k)—these days, that one small part of section 401 is almost as long as this article—and I want to offer you the opening line: “A profit-sharing or stock bonus plan, a pre-ERISA money purchase plan, or a rural cooperative plan shall not be considered as not satisfying the requirements of subsection (a) merely because the plan includes a qualified cash or deferred arrangement.”

Shall not be considered as not satisfying?

What’s amazing is that anyone could read material like that and have a creative thought about it. Ted Benna did, on a quiet fall Saturday in 1980. In fact, 401(k), as rewritten in 1978 to become law in 1980, wasn’t intended to create the 401(k) accounts we enjoy today. It was a tweak to fix some ambiguities in the rules about a type of savings plan that already existed. But the provisions of 401(k) could be interpreted, it turned out, to permit 401(k) accounts. That was Benna’s insight. It was Ted Benna, not Congress, who came up with the brilliant idea for a savings account that could help us retire in comfort.

Benna wasn’t exactly browsing the tax code. He was a 39-year-old benefits consultant who had gotten his start at 19 as a “math clerk” for Provident Mutual Life Insurance Co.

The particular Saturday that he invented, or discovered, the 401(k) account, he was working on how to improve the savings plan of a bank that was a client. Taking nothing at all from Benna, the 401(k) didn’t spring fully formed from his brain. Thrift savings plans, even tax-protected savings plans, had been around for years. The 401(k)’s cousins—the 403(b) account for nonprofit employees and the 457 account for government employees—already existed (457 was created in the same legislation that revised 401(k)). No equivalent existed for companies, though.

So when inspiration struck, says Benna, “I realized this could get pretty big, pretty fast.” Indeed, after winning IRS approval, and after months of effort with the brothers who owned the small firm that he worked for, it was clear that Benna was on to something. The firm eventually grew from 75 people to 300 people and became a top-25 provider of 401(k) services before being sold in 1990. The first 401(k) was at that firm, the Johnson Companies.

Benna, now 60, is well-known in the 401(k) world and is well regarded. He has moved with his wife to a modest riverfront home in a tiny central Pennsylvania town, Jersey Shore, and he’s a consultant. He has no illusions about human nature, but an actuary’s impatience with it. Of the roller coaster of people’s 401(k) balances in the past few years, he says, “People naturally want to take credit when they are doing well, and they want to blame someone else when they are hurt.”

Asked about his legacy, Benna points out that another huge demographic shift is taking place. People who are 60 seem younger than they used to. A hundred years from now, the 401(k) may be irrelevant, he says. “Who knows if people will even retire a hundred years from now?”

Benna has his retirement savings in mutual funds. He says that “anyone who is managing their own retirement by picking stocks is a fool.”

His view of how to arrive at a comfortable retirement can be contained in a sentence as bracing as a crisp breeze: “You have to do the calculations.” You have to face reality: When are you going to retire? What income do you need? What are you putting aside now, and how are you investing it? “You’re on a journey: You’re not going to arrive where you want by accident.”

And the 401(k) is nothing more than a tool, totally in your control. If it doesn’t work out, you can’t blame the 401(k), any more than you can blame your checkbook for bouncing a check.

“The people who are most enthused about 401(k)s,” says Benna, “have a plan. They know what they’re doing and why they are doing it. The people who complain the loudest are ignorant.”

And of course, the first step toward knowing what you’re doing is... opening your statement.

Charles Fishman (cnfish@mindspring.com), a senior editor at FAST COMPANY, contributes the maximum permitted to his 401(k). He has no plans to retire anytime soon.