



# MONETARY & ECONOMIC REVIEW

Volume XXV, No. 2

Fall 2010

## The Government's Plan to Hijack Your 401(k)s and IRAs

By MER Editors

**Editor's Note:** *In the Winter 2008/2009 issue of this publication (Special Alert column), we warned readers that the Obama administration would likely allow the Bush tax cuts to expire in 2010. Significant in such a move is the impact on capital gains and the death tax. We therefore advised readers to "be prepared to take bold steps to protect assets for yourself and your family. Some of these steps may include taking distribution of IRAs and 401Ks."*

It will not come as a shock to most of our readers to hear that the federal government has been expanding, year after year, one decade after another. They are also aware that it has been expanding at an *accelerated pace* under the administration of Barack Obama. While the private sector has been shrinking, contracting, and absorbing the pain of wildly profligate government spending—the federal government itself has up until now experienced no cutbacks to speak of, no pain, and no consequences.

But out-of-control spending has created a very serious problem, and the government cannot sustain itself—let alone keep growing—from revenues generated by the existing tax base (*Source: USDebtClock.org April 23, 2010*).

The government has been getting by on the generosity of (mostly foreign) buyers of U.S. debt and on manipulations of currency and bond markets by the Federal Reserve. But now, even the "establishmentarian" credit reporting agencies such as Moody's have been forced to acknowledge that our nation's critically-important "AAA" credit rating is hanging by a thread and will soon have to be revised downward.

Foreign buyers of skyrocketing U.S. debt—the biggest of which are China and Japan—are increasingly reluctant to buy the flood of U.S. Treasury bonds needed to keep the government's doors open. U.S. investors are now seeing that lending to Uncle Sam—once considered a rock-solid investment—could be very risky, particularly in long-term bonds.

If there is one fact that has underlain the runaway train of government spending it is this: Certain powerful politicians have acted upon the preposterously arrogant theory that the government need not operate fiscally in the same way that the private sector is required to do—i.e., limit spending, pay its debts, operate in the black. Rather, their solution has been to "raise revenue" by any means necessary—borrow it, print it (without anything to back it up), and raise taxes to confiscatory levels. According to the theory of irresponsible politicians, Washington—unlike the rest of us—need not live within its means!

It always gets down to this: When governments are desperate for money, they begin to change the rules so they can milk more money out of private wealth holders—even those minimally prosperous savers who have managed to salt away a measure of security by prudent management of their assets. As the government gets more desperate, it redefines the meaning of "rich." The Obama administration tells us that anyone earning more than \$250,000 annually is "rich." But thousands of small business owners who manage to eke out a personal income of \$40 - \$50,000 a year from a gross business income of \$250,000 know full well they are not "rich." Nevertheless, the line has been drawn; even a small expansion of their businesses will likely push small business owners into the confiscatory tax brackets that leftists consider "fair" for punishing the "rich."

Sometimes, in a financial crisis, governments move rapidly to seize assets outright, as was the case in Argentina just two years ago. The Heritage Foundation reported on October 31, 2008:

*"This week Argentina's leftist president, Christina Kirchner, announced she would move forward with her plan to seize the nation's private pension funds. Kirchner claims government seizure of the funds is needed to protect Argentinians from the global market crisis. But most observers believe her real motive is to use the \$30 billion in seized assets to ease the massive debt obligations her leftist spendthrift government has run up."*

Up until now, the biggest source of largely untapped revenue for U.S. politicians to latch onto is private retirement accounts. Some 60 million American households own and control 401(k) retirement funds valued at around \$4

trillion. If we include 403(b)s, IRAs, Health Savings Accounts, and all other vehicles through which Americans hold retirement assets, the total runs to \$15 trillion.

(Source: Lee Bellinger, “The Obama Administration’s Secret Plan to Hijack Your 401(k)s and IRAs,” Confidential Briefing, Lantern Press, 2010)

At this point, you are probably asking what the *actual chances are* that a 401(k)/IRA asset grab will occur? It’s hard to predict the timing; it may not happen as suddenly as in Argentina, but a piecemeal approach appears likely. The groundwork for implementation is already being laid.

### **IRA and 401(k) De-Privatization Plans**

On March 25, 2010, an article in the *New York Times* acknowledged, “*This year, the system will pay out more in benefits than it receives in payroll taxes, an important threshold it was not expected to cross until at least 2016, according to the Congressional Budget Office*” (Source: “Social Security Payout to Exceed Revenues This Year”). The trickle of red ink will soon become a flood under the pressure of 78 million retiring Baby Boomers.

Thus, the government plans to “nudge” the investing public into investments of its own choosing.

As Bob Chapman of *The International Forecaster* explains, “The looting of retirement plans is still in the planning stage, and you’re seeing these trial balloons go up” (July 26, 2010).

In another publication we read, “The Federal Deposit Insurance Corporation (FDIC) recently launched a campaign to “encourage” pension funds to make investments in “distressed assets” tied to failed or failing banks. Since the FDIC is undercapitalized by tens of billions of dollars and is bracing for hundreds of bank failures, its motivation seems pretty clear: get retirement plans to help prevent, defer, or absorb huge losses in the banking system.” (Source: Bellinger, “The Obama Administration’s Secret Plan to Hijack Your 401(k)s and IRAs”)

The U.S. Treasury and Labor Departments have already introduced proposed regulations to alter investment incentives for fund managers to begin pumping money into government-approved “investments.” Assistant Labor Secretary Phyllis C. Borzi and Deputy Assistant Treasury Secretary Mark Iwry are specifically spearheading an effort to promote the conversion of 401(k) and IRA assets into annuities (See *Federal Register*, Vol. 75, No. 21, February 2, 2010).

The March 9, 2010 edition of *BusinessWeek* notes that new federal regulations designed to “promote the conversion of 401(k) savings and Individual Retirement Accounts into annuities or other steady payment streams” would help drive cash into government-controlled entities such as American International Group (AIG). That group as readers may remember, was bailed out to the tune of \$182.3 billion; it will almost certainly direct any private retirement monies it receives into so-called “safe” government-approved investments—especially U.S. Treasury bonds, which are becoming harder and harder to sell to skeptical buyers.

MER readers may call for a free consultation with an FAMC economist or consultant to discuss the implications of these proposed government actions for your personal financial security (800-325-0919, Ext. 7470).