SEAL the Deal

By Reg P. Wydeven
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Growing up, my favorite show was 'The Brady Bunch.' My sister and I would watch it every day after school. The show was funny and touching and always had a moral.

One such moving episode featured a sibling dispute between Bobby and Cindy, ending with Bobby claiming he wished Cindy would get rid of her beloved doll, Kitty Karry-All. When the doll does go missing, Cindy naturally blames Bobby. Bobby pleads his innocence, so Mike organizes a trial to determine his guilt.

In a tear-jerking scene, Bobby smashes open his piggy bank to buy Cindy a new Kitty Karry-All doll. In typical 'Brady' fashion, however, the story has a happy ending. It turns out that Tiger, the family dog, is hoarding family items in his doghouse, including Kitty Karry-All and Bobby's harmonica.

The episode hit home, for every kid knows the sanctity of a piggy bank. Smashing one is symbolic, for once the piggy bank is broken it can never be put back together. Accordingly, one should be shattered only in the direst of emergencies.

Our own Senator Herb Kohl feels the same way about 401(k)s. That's why he co-sponsored the SEAL Act with Senator Mike Enzi from Wyoming. Short for the Savings Enhancement by Alleviating Leakage in 401(k) Savings, the Act aims to make it more difficult for employees to dip into their 401(k)s and at the same time easier for them to pay back borrowed funds.

During our current economic downturn, American workers are taking money out of their retirement plans faster than Marcia's boyfriend, Alan, dumped her after she got braces. Management consulting company Aon Hewitt recently released a study that reflects 28 percent of active participants in 401(k) plans had an outstanding loan in 2010, up from 22 percent in 2005.

The study also showed that 7 percent of plan participants made flat-out withdrawals in 2010, up from 5 percent in 2005. For employees who lost their job after borrowing funds, a whopping 70 percent of them defaulted on the payback. A staggering 42 percent cashed out their plans entirely after losing a job. In the industry, these loans and withdrawals are referred to as "leakage."

If employees default on a loan from their plan, it is treated as a withdrawal, and is not only subject to income taxes but also a penalty (if under age 59½). Senator Kohl claims the problem is compounding, because not only are employees taking out more funds, they're contributing less at the same time. He issued a statement saying, "The gap between what Americans will need in retirement and what they will actually have saved is estimated to be a staggering $6.6 trillion."

The SEAL Act seeks to remedy the problem by limiting the number of loans an employee can take against a 401(k) to three. Currently, there is no maximum unless the employer imposes one. In addition, the Act would explicitly prohibit the use of debit cards linked to 401(k)s. In the past, these cards were used like traditional debit cards, and it made racking up loans far too easy.

Finally, the bill would allow borrowers who lost their job to repay loans up until the time they file their federal taxes by contributing money into an IRA. Under current law, loans must be repaid within 60 days of the end of employment.

So for those of us who don't have five siblings with whom we can sing "Keep On" while appearing on the "Pete Sterne Amateur Hour" to win a cash prize, the SEAL Act is designed to help us save for retirement.

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