Robert Kiyosaki Why the Rich Get Richer

The Biggest Scam Ever

by [Robert Kiyosaki]

Posted on Monday, November 30, 2009, 12:00AM

On the cover of the October 19, 2009 issue of "Time" magazine ran this headline: "Why It's Time to Retire the 401(k)." The cover picture was ominous, showing a 401(k) sinking like the Titanic.

I recommend reading this entire article, especially if you do have a 401(k). My concern is that the flaws of this retirement plan will grow into personal tragedies as the first of approximately 75 million baby boomers retire, leading to the biggest stock market crash in history.

But in spite of the apparent problems with the 401(k) plan, the darlings of financial media continue to tout its benefits. The same month "Time" ran its article, "More" magazine's financial guru, Jean Chatzky, wrote an article about using low-interest savings to pay off high-interest credit cards. In the article she states, "There's no better guaranteed return on your money (except, perhaps, a 401(k) match)."

Countering Jean's wisdom of "no better guaranteed return," the "Time" article stated, "At the end of 1998, the average 401(k) balance was $47,004. By the end of 2008, the average balance was down to $45,519." If that is a great guaranteed return, I'm glad I don't have a 401(k). The "Time" article pointed out that $100 in 1998, after inflation, was worth about $73 in 2008, a loss of $27 after ten years. So whom do you believe..."Time" or "More" magazine?

If you are unsure as to whom (and what) to believe, the "Time" article made two more statements worth considering. They are:

1. "The older you are the riskier a 401(k) gets."

2. "Forty-four percent of all Americans are in danger of going broke in their post-work years."

Now, I can hear some of you saying, "But the stock market is going back up. Green shoots are appearing. Everything is fine. The crash was just a correction." For those optimists among you: I wish that all of your dreams come true and you live happily ever after.

I do not criticize the 401(k) plans just to criticize. I write because I am concerned. Let's say "Time" magazine's estimates are correct. Let's say 44 percent of all Americans will go bankrupt after retirement. For approximately 75 million baby-boomers preparing to retire, that means 33.8 million of them will go bust once they stop working. To me, this is disturbing.

While many think the financial crisis is over, I believe the worst is yet to come. In spite of the green shoots in the stock market, the fundamentals of the U.S. government are worsening. I doubt Social Security can afford the avalanche of retiring baby boomers. The Social Security fund is empty, underfunded by approximately $10 trillion. For the first time in 35 years, Social Security will not pay a cost of living increase. And Medicare is projected to face a shortfall as well, of between $65 and $85 trillion.

In 2009, interest payments on our national debt are about $380 billion, which is $1 billion a day in interest. At the same time, the national debt is projected to climb to $20 trillion by 2012, which means the U.S. will have to borrow money just to make the interest payments.

I know the Federal Reserve Bank can continue to print more and more money...but city and state governments cannot. This means your city and state taxes will have to go up. If you think your property taxes are high now, just wait five years. I predict that, even if your home's value does not go up, property tax rates will, and higher taxes will do wonders for property values. This means people counting on their home as their biggest asset may be disappointed.

In 1913, when the Fed was created, and in 1971, when President Richard Nixon took the U.S. off the gold standard, the ultra rich were allowed to siphon off our wealth -- via our own money, the very thing we work hard for and do our best to save. In other words, with every dollar the Fed prints, our wealth is being drained via increased taxes, debt, inflation, and savings.

A Cash Heist

There are four expenses that keep the poor and middle class struggling financially. They are:

1. Taxes -- both apparent and hidden

2. Debt -- mortgages, credit cards, and student loans.

3. Inflation -- rising food and fuel costs

4. Retirement plans -- 401(k) and savings

It is via these four expenses that the rich get richer. In other words, all four of these expenses are a cash heists, the ways the rich use the government to get into our pockets, draining us of our wealth.

The Silver Lining

The silver lining of all this: With a more sophisticated financial education, rather than have taxes, debt, inflation, and retirement accounts as drains on a person's wealth, a person can convert those government-sponsored expenses into elements that work in one's favor. By using the same rules of money the rich use, those four expenses will make you richer. In other words, taxes, debt, inflation, and not needing a retirement plan can make you richer if you use different rules of money. As stated earlier, in 1971 Nixon changed the rules -- and so should you.

In closing, the 401(k) has a few good points...but not good enough, in my opinion, given the financial challenges that lie ahead.