Student’s name

Instructor

Course Code

Date

1. **Why is there a market failure in the 401(k) market?**

The flop of the 401 (K) market could be a result of bad investment decisions. The 401(K) utilizes the individualized system, which creates a lot of inefficiencies. Most traditional pension funds are investing workers' contributions in pools; to keep the administration cost low, every 401 (K) pays a certain fee to companies, which manages their accounts, and therefore, this increases the cost to individual investors. This makes the 401(K) higher in savings and this could have cost the decline in investment and failure of the market. Secondly, the 401(K) market system does not cover all the workers. According to Callahan (21), 40% of workers are not accessible to the 401 (K) plan. However, given such a gap, it is not seen as a saving plan and, therefore, cannot be used as a supplement to social security. This has made its fortune to dwindling. Thirdly, the 401(K) market exposes individuals to many risks and this scares many customers. The 401(K) allowed the public to decides how their money is being invested in exposing the market to too much risk. The performance of 401 (K) depends on the performance of the market. The decline in performance from the market affects the company directly. Therefore, these have been some of the issues which caused the flop of failure of the 401 (K) market.

**2.) Describe and detail all of the fees/costs associated with a 401(k).**

There are several costs which are associated with the operations of the 401(K) market. As stated by (Yochim and Todd 23) these fees are associated with 401(K) are expressed in percentage. There are administrative, investment and individual service fees. The administrative fee is used to cover the cost of maintaining the plan. It normally covers the education and other training plans which are used by the 401(K) market. Everyone pays this fee and sometimes employees even pay it. It is an important fee since it ensures that the market is kept in operation. An investor pays an investment fee for a specific plan an investor has acquired. It is the single most expensive fee paid by investors, and it is usually disclosed in the mutual funds' prospectus and the financial report as well. It covers the cost of maintaining or managing the investment of customers. The third cost is the marketing fee, which is used for marketing and other activities which are conducted by the market. This is the fee used to cover events and other activities that are being conducted by the market.

Question 3:

Person A

Pension A will be able to get$ $150,939.85.58of investment

Person B will be able to get$ $131,324.33

Person B will be able to earn

**Question 4: Describe and come up with your solution to alleviate the problems with 401(K).**

The problem facing 401(K) can be solved through changing management strategies of all the plans of investment. First, the 401(K) should decide on the investment for all the investors. The current practice whereby the public or investors decide on where to invest exposes the company to a lot of risks and this is the reason 401(k) has failed. The 401(K) should take charge of an investment plan and help individuals on where to invest to limit a lot of risk to the market. Second, the 401 (K) market should have a strategy to bring in more workers. It will make the market look more inclusively hence attract workers and other types of investors to the market. Currently, 401(K) has only 40% of workers, which means that 60% have not subscribed to the market. An intensive marketing strategy, which includes partnership, will see the 401(K) market grows and therefore, this could lead to its profitable to save the market from collapsing. The 401(K) market should have a pool of accounts to manage the investment of investors. Currently, the 401(K) market hires companies to manage the plan for investors, and this has proved to be very expensive. 401(K) needs to change its strategies to develop a pool where all investors could contribute. This will keep the cost of investment low, and therefore, it is likely to attract investors to the market. It is also recommended for a company to have an interactive IT system for trade and investment, as well. The 401(K) market advanced technology will allow it to be more accessible and therefore, it can attract many investors that it is now.

# Works Cited

Callahan, David. "A Perfect Failure: Why the 401(k) Has Been a Flop." https://www.huffpost.com/entry/401k-a-perfect-failure\_b\_1574834 (2019): 2-185.

Yochim, Dayana and Jonathan Todd. "The 1% Fee Could Cost Millennials $590,000 in Retirement Savings." International Journal of Management (2018): 2-12.

Appendix: Person A;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **art principal** | **start balance** | **interest** | **end balance** | **end principal** |
| 1 | $15,000.00 | $15,000.00 | $2,700.00 | $17,700.00 | $15,000.00 |
| 2 | $15,000.00 | $17,700.00 | $3,186.00 | $20,886.00 | $15,000.00 |
| 3 | $15,000.00 | $20,886.00 | $3,759.47 | $24,645.48 | $15,000.00 |
| 4 | $15,000.00 | $24,645.48 | $4,436.20 | $29,081.67 | $15,000.00 |
| 5 | $15,000.00 | $29,081.67 | $5,234.71 | $34,316.37 | $15,000.00 |
| 6 | $15,000.00 | $34,316.37 | $6,176.94 | $40,493.31 | $15,000.00 |
| 7 | $15,000.00 | $40,493.31 | $7,288.80 | $47,782.11 | $15,000.00 |
| 8 | $15,000.00 | $47,782.11 | $8,600.78 | $56,382.89 | $15,000.00 |
| 9 | $15,000.00 | $56,382.89 | $10,148.92 | $66,531.81 | $15,000.00 |
| 10 | $15,000.00 | $66,531.81 | $11,975.74 | $78,507.53 | $15,000.00 |
| 11 | $15,000.00 | $78,507.53 | $14,131.35 | $92,638.89 | $15,000.00 |
| 12 | $15,000.00 | $92,638.89 | $16,675.00 | $109,313.89 | $15,000.00 |
| 13 | $15,000.00 | $109,313.89 | $19,676.49 | $128,990.39 | $15,000.00 |
| 14 | $15,000.00 | $128,990.39 | $23,218.26 | $152,208.66 | $15,000.00 |
| 15 | $15,000.00 | $152,208.66 | $27,397.58 | $179,606.22 | $15,000.00 |
| 16 | $15,000.00 | $179,606.22 | $32,329.12 | $211,935.34 | $15,000.00 |
| 17 | $15,000.00 | $211,935.34 | $38,148.36 | $250,083.70 | $15,000.00 |
| 18 | $15,000.00 | $250,083.70 | $45,015.07 | $295,098.76 | $15,000.00 |
| 19 | $15,000.00 | $295,098.76 | $53,117.77 | $348,216.54 | $15,000.00 |
| 20 | $15,000.00 | $348,216.54 | $62,678.97 | $410,895.52 | $15,000.00 |
| 21 | $15,000.00 | $410,895.52 | $73,961.20 | $484,856.71 | $15,000.00 |
| 22 | $15,000.00 | $484,856.71 | $87,274.21 | $572,130.92 | $15,000.00 |
| 23 | $15,000.00 | $572,130.92 | $102,983.56 | $675,114.49 | $15,000.00 |
| 24 | $15,000.00 | $675,114.49 | $121,520.60 | $796,635.09 | $15,000.00 |
| 25 | $15,000.00 | $796,635.09 | $143,394.32 | $940,029.41 | $15,000.00 |
| 26 | $15,000.00 | $940,029.41 | $169,205.28 | $1,109,234.70 | $15,000.00 |
| 27 | $15,000.00 | $1,109,234.70 | $199,662.25 | $1,308,896.95 | $15,000.00 |
| 28 | $15,000.00 | $1,308,896.95 | $235,601.44 | $1,544,498.40 | $15,000.00 |
| 29 | $15,000.00 | $1,544,498.40 | $278,009.71 | $1,822,508.12 | $15,000.00 |
| 30 | $15,000.00 | $1,822,508.12 | $328,051.47 | $2,150,559.58 | $15,000 |