

<http://www.chicagotribune.com/business/yourmoney/sns-yourmoney-0529savings,0,6953028.story>

# Americans and saving: What will it take to get us to save enough for retirement?

By John Lux

May 29, 2005

Most Americans are pretty sure they'll do just fine in retirement. The latest Retirement Confidence Survey, released in April, found that 65 percent of workers are either very confident or somewhat confident they'll have enough money to live comfortably in their retirement years.

A lot of us are kidding ourselves.

The survey by the non-partisan Employee Benefit Research Institute in Washington, D.C., reported that 20 percent of those who say they are very confident are not currently saving for retirement. And 37 percent of workers who have not saved a dime for retirement are somewhat confident they'll do all right.

The raw numbers are not encouraging. According to the Brookings Institution's Retirement Security Project, in 2001 half of all American households headed by people between 55 and 59 had less than \$10,000 in sheltered retirement plans such as 401(k)s or IRAs.

Even if you take out the 36 percent of people who had no accounts at all, the median balance in these accounts was still only \$50,000. While statistics show that more than 80 percent of eligible workers have balances in their company's plan, many of them are currently contributing little or nothing to their accounts on payday.

Why aren't we putting more away, especially in retirement plans that save us money upfront on income taxes?

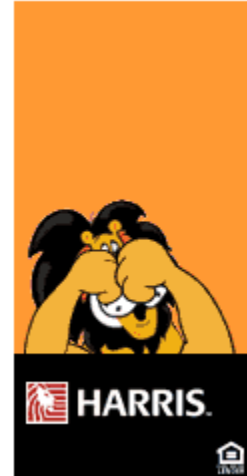
"One of the big reasons is simply procrastination," according to Peter Marathas of Boston, partner in the law firm Mintz, Levin, Cohn, Ferris, Glovsky and Popeo. "They simply don't fill out the forms."

Marathas, who advises companies on employee benefits, said, "People don't see the benefit, especially if there is no employer match. But it's mystifying that they don't even if there is a match."

Opting out of your company's 401(k) wasn't so mystifying in the years when Social Security seemed really secure and most companies offered pension plans that didn't cost you a dime. But things are different now.

"Increasingly, the 401(k) is the only retirement vehicle sponsored by the employer, with pension plans and even medical plans being dispensed with," said Lori Lucas, director of participant research at

Advertisement



benefits consultant Hewitt Associates in Lincolnshire, Ill. "So this is much more important."

Nobody denies that it takes discipline to save, but just about everyone agrees that saving in a tax-sheltered plan is the way to go. Here's why:

### **Free money**

Most large companies and lots of smaller ones match all or part of an employee's 401(k) contribution up to a certain percentage of pay.

But don't expect a lot of generosity. "Because costs are so much higher today," Marathas said, "companies aren't devoting the resources to make these benefits as rich as they were."

To make sure a company isn't using its 401(k) merely to feather the nests of its top people, plans must pass the government's "top-heavy test," according to financial planner and certified public accountant Scott Coleman, of KRD Financial in Schaumburg, Ill.

A plan is considered top heavy if "highly compensated employees" (those making more than about \$91,000 a year) collectively have more than 60 percent of total plan assets. The company has to even things out, either by giving contributions back to the highly compensated group (and creating some disgruntled employees), or increasing contributions for all employees.

When the employer is in violation of the top-heavy rules, a common corrective measure is for the company to make a non-elective contribution of at least 3 percent for all eligible employees (not just those participating in the plan). But Marathas said many employers are going to the new "safe-harbor plan," where they agree to contribute roughly 4 percent to every participant in the plan. But you've got to be contributing to the plan yourself to get in on the free money.

### **Immediate tax benefits**

Neither the worker's nor employer's contribution is subject to income taxes until you take the money out after retirement. Compound growth

If you keep retirement savings in a mutual fund outside a 401(k), you pay taxes each year on any increase in the fund's value, slowing the growth of your nest egg. The same money in a tax-deferred account grows faster, and because you may be in a lower tax bracket when you retire, you'll pay less tax when the time comes. To compare returns on taxed and tax-deferred investments, see the calculator at [www.fincalc.com/INC\\_07.asp?id=13377](http://www.fincalc.com/INC_07.asp?id=13377)

### **Almost painless savings**

The IRS says you can put up to \$14,000 a year into your 401(k) in 2005, plus another \$4,000 if you're over 50. But plans vary from company to company, and the rules may limit your contribution to a certain percentage of your pay. (If you want to save more, see if your company will start a Roth 401(k), a new savings vehicle that beginning in January will let you put money you've already paid taxes on into a 401(k). No company contribution is involved.)

You aren't even seeing the money, so you don't feel deprived. And you'll be feeling downright smart as you watch your balance grow. "This works," Marathas said. "People start seeing statements, seeing a buildup, and participate even more."

Out of sight, out of mind works when you're just starting a job, but it also works at raise time. If you choose to put say, half your raise into the 401(k) you'll still see a little boost in your take-home pay. This is especially smart when a raise bumps you into a new marginal tax bracket, the biggest surge coming at \$58,101, from 15 percent to 25 percent.

The company must put your contribution into the fund no later than the 15th of the month after it's collected.

Stay vigilant once your money is in the plan.

"People forget it's their money," Marathas said. "A typical employee looks just once a year and then sometimes rebalances. But [401]k accounts are like any other investment: The rule of attention and the rule of diversity apply."

Your human resources department must give any plan member who asks a "summary plan description," which details eligibility, company contributions, distribution options, the plan provider and how to contact them.

The investment choices in the plan are key to how well it serves employees of all ages, and the trend is to outsource management of the plan and let workers divide their money among a variety of investments.

"The retirement-plan market is extremely competitive among different types of vendors, including insurance companies, mutual fund companies, payroll companies and CPA [certified public accountant] firms," Coleman said. "I often see employers taking a very simple approach by going with the lowest-cost provider in terms of direct dollars. But the compensation models in the 401(k) market are very complex."

"Knowing the differences between classes of mutual funds is important," he said, and "insurance companies often package their retirement plans within group annuities, which can present separate costs of their own."

And if costs are too high they can have a dramatic effect. "Just a couple of basis points can make a difference of tens of thousands of dollars on the back end," Marathas said.

He thinks employers should put the administration of the plan out to bid "every couple of years, particularly if the fees are coming out of the employee account."

*John Lux is a contributing editor for Your Money.*

Copyright © 2005, [Tribune Media Services](#)