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Today's Do-It-Yourself Pension

By Paul Magnusson

David C. John likes to talk about his favorite case study, his 19-year-old daughter, Meredith. The day that the sophomore nursing student at Villanova University lands her first job, John says, she'll have to start planning for the day she retires.

"Unless Meredith wants to be taken care of by her children and grandchildren, she has to save for her own retirement," says John, a research fellow on Social Security and pensions at the Heritage Foundation in Washington.

The reason workers like Meredith have to look far down the road, says John, is the rapid disappearance of the traditional pension, which provided some retirement security after a lifetime of employment at a single company. These days, a far more footloose work force rarely stays at one job for long. And U.S. companies faced with global competition are ever more reluctant to commit to supporting their retirees in perpetuity.

That puts the burden—and risk—of financing retirement squarely on workers. In 1980, 83 percent of workers with pensions had a defined benefit (DB) funded by employers. That figure has shrunk to 21 percent, according to the U.S. Department of Labor. Today, 58 percent of retirement assets are held in self-directed accounts such as 401(k)s and similar plans, compared with 42 percent in DBs, according to the Washington-based Employee Benefit Research Institute. In fact, the 401(k),

with its easy portability from job to job and its immediate vesting provisions, could be the right prescription for the 21st-century worker.

Perhaps the simplest tool to boost retirement savings is automatic enrollment for a 401(k). So far, of large companies that offer 401(k)s, 15 percent have established automatic enrollment. Congress may enact legislation to encourage such plans.



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Having an automatic plan makes it much easier to get workers to sign up. That's significant because just 75 percent of workers eligible to contribute to a 401(k) at work actually do so. The youngest workers sign up at a rate of just 31 percent, often forgoing the free money of the company match. For a young worker, this is a big mistake, since the rewards of saving early for retirement can be significant—assuming the market grows over a lifetime and the investments are smart.

While an auto-enrollment plan is not mandatory—employees are free to opt out entirely or sign up later—preliminary estimates show the change results in significantly increased retirement savings. And by making investment automatic and choices easier, economists say, such plans will encourage even people with limited income to save.



58%

of current retirees report that Social Security is a major source of income; 43% cite a traditional pension as major source; and 32% cite personal investments.