

## Helping Americans Do a Better Job of Saving for Retirement

Over the past 20 years, the 401(k) plan has gradually replaced the traditional pension plan as a primary source of retirement income for many American workers. This trend has shifted the responsibility for accumulating a source of retirement income from the employer to the employee.

Unfortunately, not all American workers with access to a 401(k) plan participate in it—and when they do, many are overwhelmed by the decisions they are forced to make. Between low participation rates and uninformed investment choices, many Americans are expected to reach retirement age with a nest egg that may fall woefully short of what they will need to maintain their preretirement standard of living.

### Addressing the Shortfall

Enter the Pension Protection Act of 2006 (PPA). Some of the PPA's most significant provisions were crafted in response to the perception that American workers were not preparing adequately for their retirement years—and that American employers needed better tools to help employees do so. The PPA clarified and standardized *automatic enrollment* to give plan sponsors protection from potential violations of state laws when choosing to automatically enroll employees in their 401(k) plan. The PPA also addressed the issue of how to invest the assets of automatically enrolled employees by creating a “safe harbor” for the selection of a *qualified default investment alternative* (QDIA) by employers. With this measure, employers generally bear no additional responsibility for investment selection if they choose a default option that meets the safe-harbor criteria, and if certain notices and other information are given to participants. Together, automatic enrollment and QDIAs are becoming powerful solutions for the challenge of employee inaction.

### Turning Inertia to Advantage

With automatic enrollment, employees are enrolled in the plan as soon as they become eligible. When an existing plan adds an automatic enrollment feature, the employer can choose to include only new hires as they become eligible, or it can also include previously eligible employees who have not yet joined the plan. Upon enrollment, the employee has 90 days to opt out of the plan and have any money that may have already been deferred returned. If the employee does not elect to opt out, a percentage of his or her salary—typically starting at a minimum of 3%—will be contributed to the plan from each paycheck. Effectively, automatic enrollment takes advantage of the same inertia that prevents many employees from participating in a plan.

### An Opportunity to Grow

Once an employee has been automatically enrolled, the next question is how to invest the employee's contributions. While employers have had to resort to default investments in the past, in many cases those investments were aimed at preserving capital, not growing it. But with the PPA's safe-harbor provision for QDIAs, plan sponsors can now select default investments that will give participants an opportunity to grow their assets at a rate necessary to fund their retirement without creating more liability for the plan sponsor.

The PPA's most significant provisions are beginning to weave their way through the fabric of our retirement landscape, as more plans automatically enroll more employees into diversified investments, which in turn provide greater opportunity for capital appreciation. While there has been much progress, there is still a long way to go. Given the tremendous shortfall in retirement savings and the loss of guaranteed retirement income from pension plans for millions of people, only time will tell if the PPA's provisions are enough to help American workers adequately fund their retirement.

### **Retirement Savings Need Work**

According to the *2007 Retirement Confidence Survey* from the Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., only 20% of respondents age 55 or older have saved more than \$100,000 for retirement. Here are some other sobering findings from this study:

- Nearly one-third of respondents over age 55 said they have less than \$25,000 in retirement savings
- 43% of all respondents said they have not done a retirement-needs calculation
- Approximately four in 10 respondents were forced to retire before they intended to retire
- 75% of respondents underestimated their estimated lifespan
- 

*By the Smith Barney Division of Citigroup Global Markets Inc.*

*Courtesy of*

Joy Hunter Chaillou is a Financial Advisor and Planned Giving Advisory Council member for NJSO. Please feel free to call Joy to discuss any of the information in this article or any related questions you may have. She can be reached at 914-701-7505 or 800-423-0494 ext. 7505.