Filling America's Empty Nest Eggs
The Crisis Nobody's Talking About

A White Paper on the 401(k) Security Act
Retirement Solutions, LLC

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Executive Summary

The Problem: Americans face a bleak retirement present—and future.

- For 63% of Americans who have a retirement plan, the 401(k) plan is their only plan.
- The most common employer contribution to an employee's 401(k) account is only 3% of pay.
- Americans who are covered only by a 401(k) plan need to have an account balance at retirement that's at least 10 times their salary.
- The average American has only accumulated one-fifth of what he/she needs.

Workers in other countries are faring better when it comes to retirement security.

- The United States ranks near the bottom of 30 OECD countries in pension generosity.
- Only six of the 30 countries have lower "pension wealth" than the U.S.: the Czech Republic, Hungary, Mexico, Poland, the Slovak Republic and Turkey.
- Seven countries have 401(k) style plans that are actually helping their citizens retire. The difference? Higher mandatory employer contribution rates—averaging 7.5% of pay, or more than twice that of the U.S.

The Solution: The 401(k) Security Act

- Every company with 10 or more employees must offer a 401(k) plan with a match of at least 9% of employee compensation as Australian companies must.
- Companies with fewer than 10 employees would offer a plan in which the matching contribution comes from the government.

Part One:
Why Most Americans Can't Retire

Chapter One

Addressing the Crisis Nobody's Talking About: Empty Nest Eggs

Mention the word Australia and the images that come to mind are "shrimps on the barbie," Koala bears and kangaroos. We'd like to add another image: Baby Boomers who can actually afford to retire.

A report issued in July 2007 by AMP Financial Services, a firm that manages Australian retirement funds, reported that Australians "on average will eventually retire with total superannuation (Australia's version of our 401(k) plan) and other assets of $535,036, excluding the value of the family home. This will provide an annual average retirement income of $40,567 from a combination of superannuation, other investments and the aged pension (Australia's version of Social Security.)" [1]

How does that more-than-half-a-million-dollar retirement asset for the typical Australian compared with of a typical American approaching retirement? The Investment Company Institute, the U.S. trade group for mutual funds, on Oct. 18 issued a news release reporting that Americans held $2.75 trillion in 401(k) plans. While ICI President Paul Schott Stevens was quoted saying "ensuring that working Americans are preparing for retirement is a public policy of vital concern," nowhere in this report is whether the $2.75 trillion divided by 52.2 million 401(k) participants equaled an adequate nest egg [2].

When we do the math, it appears that the average American has saved less than one fifth of what he or she needs for a secure retirement. Here's why: to make a 401(k) account provide the same benefit as a defined benefit plan, pension actuaries say that the retiree needs a multiple of 10 to 12 times their annual salary (or average salary) right before retirement—that is, "final pay." Currently, the average American head of household between age 62 and 65 only has about $110,000, if you add the median 401(k) account balance to the median rollover IRA balance—or less than twice the median salary of $61,600 for that age group.[3] If the typical Social Security benefit for that income level is about $18,500 a year, that person will only receive a total of about $27,200 a year in retirement income when added to the $8,700 a year generated from the $110,000 nest egg—or less than 45% of pre-retirement income. And that's assuming that the retiree ONLY lives another 20 years.[4]

Australian employers must contribute 9% of pay

The reason why Australians' nest eggs are fuller than those of their American counterparts? Very simply: Australian employers are required to contribute to workers' superannuation accounts—the current contribution rate is 9% of salary up to a salary ceiling of $145,880.[5] Contrast that to America's 401(k) system, in which employers aren't required to contribute to employees' accounts. What's more, when

they do contribute it's typically only a "match" to an employee contribution—and the match is significantly lower than for employees in Australia: 50 cents for every dollar contributed by the employee up to a ceiling of 6% of compensation—or, at best, only 3% of pay compared to 9% Down Under.

Australians can contribute more to accounts than Americans

Unlike in America, the Australian authorities are constantly tweaking the system to incentivize employee contributions based on the authorities' calculations as to whether or not their citizens have achieved retirement readiness. For one thing, Australian workers aren't subject to the counterintuitively low employee contribution limits in the U.S.: $15,500 a year for individuals under age 50 and another $5,000 for the over-50 population in 2008. Australia's joint employer-employee contribution tops out at $50,000 a year and those over age 50 or turning 50 before June 2012 can contribute up to $100,000 each year in what's known as a "salary sacrifice." [6]

Australians can sell homes to boost their retirement accounts

While combined employer-employee contributions to 401(k) plans in 2008 can theoretically top out at $46,000, these limits are subject to "non-discrimination" testing; essentially if too many "highly compensated employees"—defined as making more than $105,000 a year—contribute "too much" compared to their lower-paid colleagues these contributions may have to be forfeited.[7]

In contrast, in addition to higher limits on contributions for those over age 50, Baby Boomer Australians can sell a home or other asset and add the proceeds to their accounts. Under changes introduced in the 2006 budget, workers over age 60 will be able to make after-tax superannuation contributions of $150,000 a year or $450,000 over three years.[8] Unlike their American counterparts, the Australian government realizes that Boomers need this brute-force opportunity to jump-start their savings because the 9% guarantee was only instituted in 2002—with the result that Boomer Australians will benefit from fewer years of Super contributions than their Gen X or Gen Y counterparts.

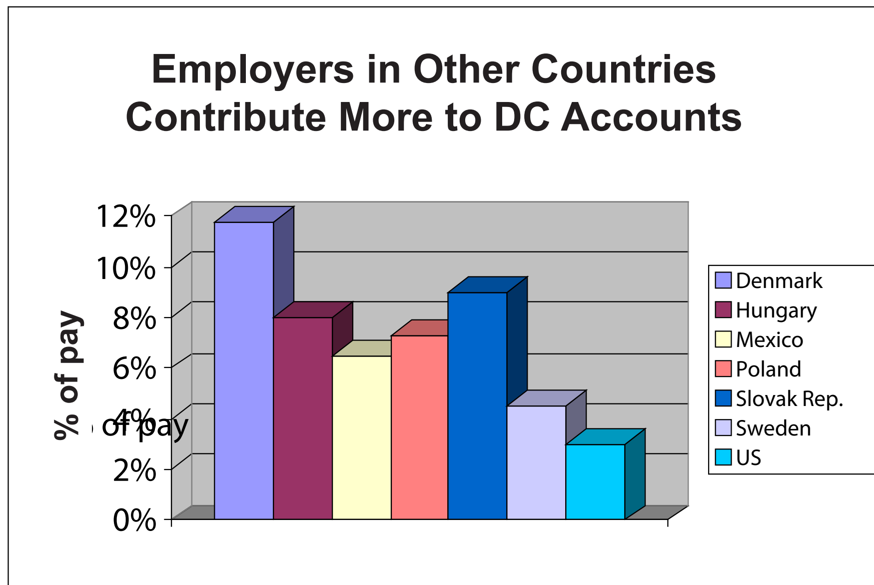
The result of this stewardship? Australians actually contributed more to their accounts than their employers did in the first quarter of 2007; according to the Australian Prudential Regulation Authority, employees contributed $22.4 billion in the first quarter of 2007, compared to $18.9 billion by employers on their behalf.[9]

Chapter Two

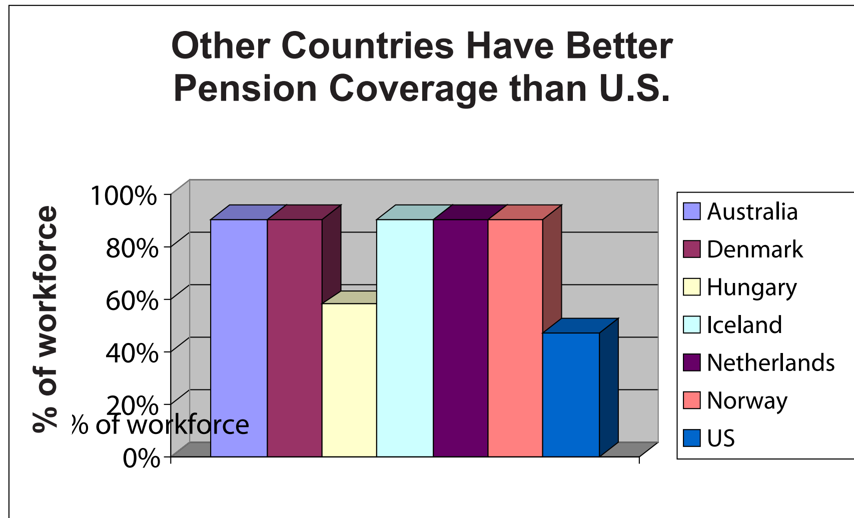
Our Global Competition: Less Affluent Countries Have Better Pensions

Australia's pension system isn't the only one that's putting ours to shame. According to a recently released report by the Organization for Economic Cooperation and Development, the United States ranks near the bottom of the 30 member countries in pension generosity; Only six of the member countries had lower pension wealth than the U.S.[10]

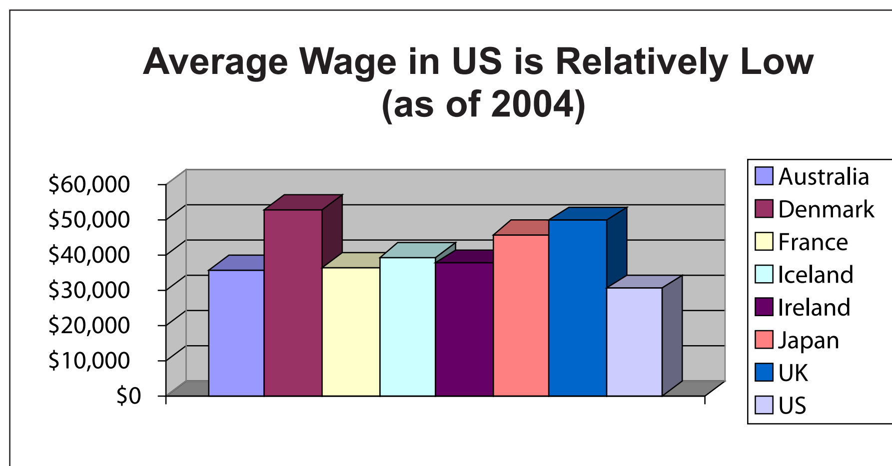
Australia is one of eight countries that has a mandatory DC system. The average contribution rate is 7.25% of pay.[11] Denmark's is 11.8 percent, Hungary's is 8%, Mexico's is 6.5%, Norway's is 2%, Poland's is 7.3%, the Slovak Republic's is 9% and Sweden's is 4.5%.[12]



What's more, the percentage of Americans who are covered by an employer-based plan is also lower than many of our OECD counterparts: only 47% of Americans are covered, compared to 90% for Australia, 90% for Denmark, 57% for Germany, 58% for Hungary, 90% for Iceland, 90% for the Netherlands and 90% for Norway.[13]



While American employers may claim that we enjoy a higher standard of living which makes it possible to save on our own, the median wage for U.S. workers is relatively low compared to their OECD counterparts. Of the 30 OECD countries, 16 have higher average wages than the U.S.—$30,335 as of 2004—including Australia ($35,922), Denmark ($52,860), France ($36,713), Iceland ($39,463), Ireland ($37,485), Japan ($45,708), Norway ($54,332) and the United Kingdom ($49,747).[14]



Chapter Three

What Went Wrong in the U.S.: How a Tax Break Replaced a Broken Retirement System

The Vanishing Defined Benefit Pension Plan

Americans weren't always so pension poor. The Employee Retirement Income Security Act, which became law on Labor Day 1974—inspired by the Studebaker collapse in the early 1960s—set funding standards for pensions and required that companies that sponsored under-funded pension plans deposit enough to cover their expected future liabilities. It also created a federal insurance scheme, the Pension Benefit Guarantee Corporation, to bail out pensions in the event that companies went belly-up—a likelihood that was expected to be rare.[15]

ERISA: Every Rotten Idea Since Adam

Interestingly, ERISA, the often-counterintuitive pension law that actuaries call "Every Rotten Idea Since Adam" immediately prompted many companies to get rid of defined benefit plans rather than face up to the tough new funding requirements. In the nine months after ERISA was signed into law, the PBGC was socked with 5,000 terminations.[16]

Pension plan terminations continued in the 1980s, albeit for different reasons. High interest rates reduced the present value of pension obligations, creating surpluses that the companies could recapture and use for restructuring or acquisitions simply by shutting the plans down and paying out benefits, typically in the form of annuities. Corporate raiders targeted companies with overfunded plans, using the surpluses to pay off debt associated with their leverages buyouts. Congress put an end to this practice in 1990 by imposing a 50% excise tax on reclaimed surpluses.[17]

The bear market of 2000 to 2002 and its aftermath were particularly damaging for defined benefit plans. With stocks plunging and the Fed cutting interest rates, pension fund liabilities soared, forcing many U.S. corporations to kick in substantial amounts of cash. While employer contributions to pension plans averaged about $30 billion a year from 1980 to 2000, during 2002 and 2003 companies had to kick in close to $100 billion annually. It isn't just bear markets that wreak havoc on their contributions—but the utterly counterintuitive rule that employers who offer DB plans often must take "contribution holidays" during bull markets.[18]

> "The Pension Protection Act effectively sounds the death knell for defined benefit pensions."
>
> *—Robert Pozen, Chairman, MFS Investment Management*

In the same fashion that the creation of ERISA caused the death of the very pensions it was intended to protect, the Pension Protection Act of 2006, which makes funding requirements more costly because it phases in tighter funding rules among other strictures, may protect pensions for some but will shrink them for many others. Roughly 20-25% of the nation's $2.3 trillion in DB assets have recently been frozen—meaning that some or all of the participants stop earning benefits and still others are closed to new hires.

Among its many provisions, the Pension Protection Act increases the premiums that companies must pay to the Pension Benefit Guarantee Corp., changes the calculations for pension liabilities and tightens the criteria and compresses the time period for "smoothing" assets from five years to two years.[19]

New rules handed down by the Financial Accounting Standards Board add to the pressure. Until 2006 plan sponsors could report the net funded status of their pension plans in balance-sheet footnotes and temper or "smooth" swings in the value of their pension assets and liabilities based on projected salaries by amortizing gains and losses over a variable period, typically ten to 16 years. Now they must use the current market value of assets and liabilities to measure a plan's funded status and run it through the balance sheet, potentially reducing the company's net worth.[20]

As Robert Pozen, chairman of MFS Investment Management was recently quoted, "The Pension Protection Act effectively sounds the death knell for defined benefit pension plans." [21]

Too Many Rules + Voluntary Pension Plans = Dead Plans

The problem with putting too many rules on a voluntary scheme is that companies react by dropping out of the scheme. As Thomas Donlan of Barron's put it, "The new pension law will drive companies in financial stress to put their pension plans into the care of the government insurance agency. At the same time, it will drive prosperous companies to take their retirement plans out of the defined benefit system." [22]

From 1974 to 2004 the percentage of Americans covered by a defined benefit plan shrunk from 44% of the workforce to 17% of it, according to the Employee Benefit Research Institute.[23] At the same time, more than 60% of the workforce is employed by a company that only offers a 401(k) plan.

The 401(k) Plan: An Accidental Pension

On the other hand, the IRS code that spawned the 401(k) plan was promulgated to clear up a dispute over the taxation of profit-sharing plans, not to create retirement security. According to Ted Benna, the consultant who "invented" the 401(k) plan in 1980, his idea was to redesign a retirement program to capitalize on tax breaks and add security to an existing defined benefit plan—not to replace it.[24]

At the same time, while 401(k) plans are also called defined contribution plans, to our knowledge no elected representative has ever attempted to amend ERISA to require that the contributions are defined so that the participant can retire with a benefit as generous as a defined benefit plan. Nor, to our knowledge, has anyone proposed mandating that employers contribute more to each account so that the "co-pay" required by the participant isn't unaffordable for those who have waited until their 30s or later to start contributing—that is, most of us. In addition, while the Pension Protection Act provided clarification on the ability of 401(k) advisers to tell participants which funds to invest in, it provided no guidance on advising the participant on their required contribution rate based on their current assets and investment time horizon. Finally, while many pension advocates have proposed legislation that expands coverage of 401(k) plans to companies that don't currently offer one, few have addressed the fact that 90% of those **with** coverage don't have/won't have adequate nest eggs.

Current 401k Practices Shift Pension Burden to Employees

By switching from defined benefit pensions to 401(k) plans, employers essentially shifted the burden of funding the majority of their pension to employees—their "required co-pay"—without communicating the co-pay, a burden that becomes increasingly onerous the longer participants postpone saving. What's more, the puny federal limits on "catch-up" contributions for those over 50 won't enable anybody to catch up.

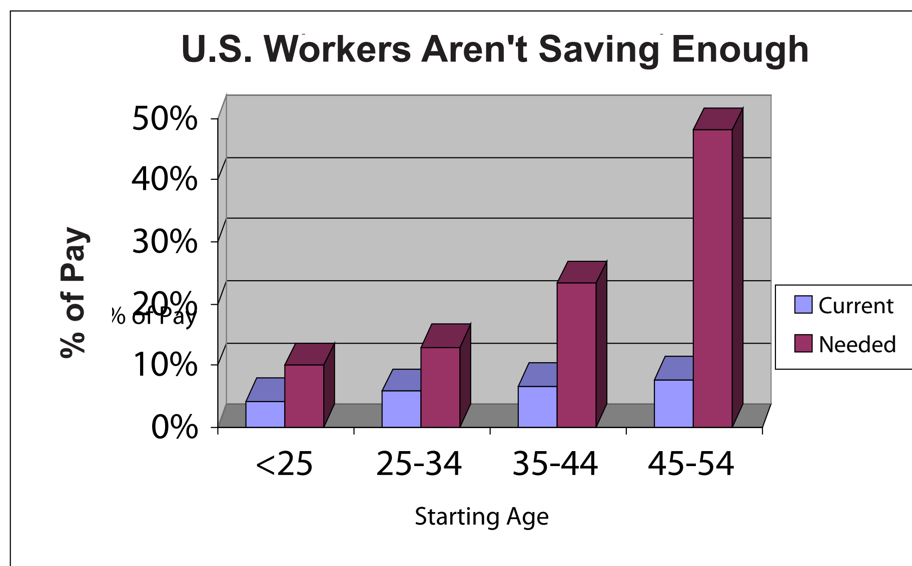
When hard times force employers to cut benefits, our theory is that employers choose to replace DB plans with 401(k) plans rather than cut back on health care coverage because employees don't perceive a pension as vital a benefit as health care—or at least that's what the employers perceive their employees think. Unfortunately, this may be true because few people outside of the union movement think about pension adequacy until they are ready to retire—when it's too late.

Retirement Solutions Offers Department of Labor Recommended Disclosure on Required Contribution Rates

At a minimum, 401(k) participants have the right to know how much to contribute to their accounts—their “co-pay” if you will—to fund a nest egg that will equal 10 times their final pay at retirement. With the input of pension actuary James E Turpin of the Turpin Consulting Group Retirement Solutions has developed formulas for contribution rates required based on the current typical employer match of 3%. Retirement Solutions President Jane White was invited to present these findings in September as a witness before the 2007 ERISA Advisory Council‘s Working Group on Financial Literacy and the Role of the Employer.

Our testimony disclosed that assuming a typical employer contribution rate of 3% of compensation even the tiny minority of participants who are savvy enough to start contributing at age 25 must save 10% of their salary to build an adequate nest egg by age 65. The longer the participant postpones starting to contribute, the greater the required contribution. For example:

- Waiting until age 35 increases the contribution rate to more than 17%.
- Waiting until age 40 increases it to more than 23% of pay.
- Finally, waiting until age 50 requires nearly a **five-fold increase from the rate at age 25 to 48%** of pay. Needless to say, this over-50 requirement flies in the face of the meager current $5,000 limit on “catch-up contributions” currently allowed by the IRS.[25]



Note: “Current” is from Vanguard Group’s average contribution rate by above age range; “Needed” is our findings based on calculations for starting ages of 25, 30, 40 and 50 respectively.

Not surprisingly, the actual employee contribution rates by age group fall far short of what they should be. For example, in a 2006 study of its participants only 11% of Vanguard Group's participants save the maximum allowed ($15,000 in 2006) and the median contribution rate is 6% of pay. What's more, the average contribution rate (medians weren't available) doesn't rise significantly over people's life spans; it's only a little more than twice for those over 60 as it is for folks in their twenties. The average rate is only 4.25% for those under 25, 5.80% for those between the ages of 25-34, 6.75% for those age 35-44, 7.77% for those age 45-54, 9.14% for those age 55 to 64 and 10.81% for those age 65 and older.[26]

Chapter Four

401(k) Reform That Won't Work: Auto-enrollment Won't Fill Empty Nest Eggs

The recently enacted Pension Protection Act (PPA) attempts to address the 401(k) savings shortfall by making it easier for plan sponsors to automatically enroll their employees; a typical formula is a starting contribution rate of 3%, which is raised by at least 1% of salary per year until it reaches 6%. However, while auto-enrollment will give people a nest egg that's better than nothing, it won't fill them.

The problem with the above formula is two-fold: **First, a 3% starting contribution rate is too low for everybody.** It's less than one-third of that required at a starting age of 25 and less than one-seventh for a starting age of 40—and these scenarios assume an employer match. **Secondly, auto-enrollment keeps the default rate artificially low for job-changers.** That's because it most likely will force them to "start over" at an inadequate contribution rate of 3% each time they switch jobs—regardless of their age at the time of the switch. For example, workers who changed jobs every seven years would accumulate a nest egg of only approximately four times their salary at retirement. Job-changers working for companies without a matching contribution would accumulate less than one-third of what they need.[27]

Chapter Five

Most stewards of 401(k) assets are unaware their clients can't retire

Despite the fact that they are stewards of their clients' pension assets, unlike their Australian counterparts most of the U.S. mutual fund companies appear to be unaware that their clients are falling behind and don't appear to know the formula for getting ahead. In a November, 2006 Wall Street Journal article entitled "As the 401(k) turns 25, has it improved with age?," an Investment Company Institute spokeswoman offered the oblique assessment that "the 401(k) is hitting its stride" without offering evidence that participants are on track to achieve an account balance equal to 10 times their final pay.[28]

While several of the large mutual funds produce annual reports on the 401(k) assets under management with detailed statistics on account balances, asset allocation, loans and withdrawals, there is rarely a report on whether their clients are on track to reach a nest egg goal of 10 times final pay—or any goal. What's more, while many of them have launched "target date" mutual funds that gradually shift the asset allocation of the participants' accounts from stocks into bonds or cash-equivalents as the participant gets closer to retirement, there is no advice to investors on the contribution rate needed to meet that target.

> Vanguard Group describes DC plans as "broadly successful" in helping Americans to save.

In a rare departure, Fidelity Investments issued somewhat of alarm, albeit one that you had to dig hard to find, in its November 2007 report on corporate defined contribution plans. In the report Fidelity introduced a "new measure of retirement readiness" called the Retirement Income Indicator, which "measures employees 'progress toward accumulating sufficient workplace savings to replace at least 40% of their preretirement income." Why such a low replacement ratio? Because Fidelity assumes that other sources of income such as a rollover IRA and/or a defined benefit pension will account for the rest of the income stream. Fidelity should know better given the low median IRA balance for pre-retirees along with the continually shrinking defined benefit pension coverage, especially since Fidelity itself just froze its pension for its 32,000 employees in March of 2007.

In fairness, the report does acknowledge that currently 401(k) participants are not on track, with the "mean RII score (of) 23% income replacement." On the other hand, Fidelity insists the good news is that "the average employee in his or her 20s would easily surpass the 40% level if his or her plan added a full suite of automated plan services."[29] We would beg to differ. As we noted in our testimony, if employees who start investing as early as their 20s must contribute a minimum of 10% of pay

to their accounts, a default automatic enrollment contribution rate of 3% of pay will not put this age cohort on track.

At least Fidelity Investments attempts to use a measure of retirement readiness and acknowledges that a portion of its participants face bleak financial futures. In contrast, the Vanguard Group's 2007 "How America Saves" report describes 401(k) plans as "broadly successful in encouraging millions of employees to save for their retirement."[30] What's more, it depicts auto-enrollment as putting the participant "squarely on the path for success: plan participation, regular savings increases and a balanced investment program." [31]

Nor do mutual fund managers appear to know what contribution rate is necessary for 401(k) participants—or the fact that the rate increases the later the participant starts to save. According to T Rowe Prices' 2005 report on its clients: "Some financial experts recommend that employees save 10% to 20% of their salaries each year." [32]

Mutual funds' online retirement calculators aren't helpful

A lack of knowledge by the mutual fund industry on how much participants need to save and what size nest egg they should aim for based on their salary near retirement is evident by the flawed assumptions offered by at least two of the mutual funds in their online calculators. Vanguard instructs its users to "estimate the percent of your *current* (italics ours) income you'll need to maintain a comfortable lifestyle in retirement." [33] T Rowe's calculator simply instructs users to come up with a monthly income goal without describing that goal as a function of replacing a salary that is likely to be a huge multiple of the user's current salary.[34]

Chapter Six

Annuities Can't Make a Silk Purse Out of a Sow's Ear

Not only has the mutual fund industry avoided the responsibility for telling their 401(k) customers how much to save in their accounts to achieve their goals, the funds and their counterparts in the insurance industry have no compunction about selling annuities to Baby Boomers who have reached retirement age without sufficient retirement assets. A recent front-page article in the Wall Street Journal, "As Boomers Retire, Insurers Aim to Cash In," described the insurance industry's push to sell annuities to retiring Baby Boomers despite a "checkered past" because of high fees, churning and other issues. According to the Journal, sales of variable annuity products have increased more than 50% over the past five years to more than $1.35 trillion.[35]

The article never addresses the most problematic potential feature of annuities: they can't make most empty nest eggs full. The function of an annuity is to make your **adequate** retirement savings last a lifetime even if you live to age 100 or more. If you haven't accumulated enough, you need to keep working—a fact that sellers are not required to disclose to their customers.

Chapter Seven

Media doesn't cover retirement crisis

Unlike the flaws in America's health care system, America's retirement crisis doesn't make front-page news.

A report on a policy forum sponsored by the Employee Benefit Research Institute in 2004 on the decline of defined benefit pension plans noted the importance of taking action to improve Americans' retirement security."[36] Forum participant Michael Clowes, editorial director of Crain's *Pensions & Investments* suggested that the news media will not provide much help in directing public focus on these issues. "I think the general press has missed the overall direction of the impending demise of the corporate defined benefit plans and its implications," Clowes said. What's more, if the media does cover 401(k) plans it will happen during a bull market and focus on the "excitement of having a 401(k) plan." [37]

Clowes ALMOST hit the nail on the head but perhaps even he didn't realize that having a 401(k) account in a bull market isn't anything to get excited about. After an incorrect 1997 Wall Street Journal article during a bull market entitled "Waking up Rich: Retirement Accounts Stashed in Stocks Make Employees Millionaires,"[38] Ted Benna, the founder of the 401(k) plan, wrote an article in a benefits publication that served as a "correction" to the Journal piece. Most likely Benna was forced to do so because the Journal refused to publish his letter or op-ed because it would be an expose of a poorly researched article.

"Frankly, I have been amazed at the attention that the recent Wall Street Journal article about 401(k) millionaires has received, " Benna wrote in Compensation and Benefits Review. "The average account balance for these participants is generally regarded to be around $35,000. Study after study indicates that the average participant is not saving enough for retirement. As a result, the major concern of most knowledgeable individuals is that we may be facing a serious retirement crisis sometime in the future. In fact, ever since 401(k) plans began, they have been attacked as not being real retirement plans."[39]

Part Two: **The Solution**
Adopt Features of Australia's Mandatory DC Plan

Chapter Eight

How They Did it Right Down Under: Australia's Mandatory DC Plan

Perhaps what's most impressive about the Australian superannuation system is that it appears to have enabled most Australians to prepare for retirement despite the fact that it was instituted more than a decade after the first 401(k) plan came into being.

In 1986 the federal government was confronted with a challenging economic environment: an aging population and an inadequate pool of retirement savings. Research by the Investment and Financial Services Association found that Australia had a retirement savings gap of about $452 billion, or $93,000 a person.[40]

According to Mavis Robertson, one of the founders of the Australia model, the difference between the American approach to retirement and the Australian one is partly a function of political culture. "We had a Labor Party government in the early 1990s and we made a collective decision to move for a broad-based compulsory system. Otherwise we'd be in the same place as Americans, trying to persuade workers that they should save more." [41]

Faced with these challenges, the Hawke-Keating government embarked on what is described as one of the most far-sighted public policy initiatives in Australian history: award superannuation, in which a portion of wage increases were directed into retirement accounts. [42]

While coverage originally only applied to the unionized workforce, it became a universal benefit as a compulsory mandate that employers contribute 9% of employee earnings. When it was introduced in 1992 the required contribution rate was 3%, then it was raised to 7% in 1998 and again to 9% in 2002. [43]

Selling the idea to the Australian worker was easy because the unions, whose membership constitutes about 30% of the population, supported it. By 1995 superannuation assets were already 54% of GDP. [44]

Chapter Nine

The Fix: Our 401(k) Security Act: Mandatory 9% Match for Companies with 10 or More Employees, Government Match for the Rest

Rather than continue to "reform" defined benefit plans out of existence by putting too many shackles on them, we'd rather improve 401(k) plans because they are the right plan for the 21st century employee, who switches jobs every four years—the highest turnover rate in the world.[46] Someone with that job-changing history who worked exclusively for companies with only a DB plan could end up never being vested in any plan—i.e., pension-less.

To make a 401(k) plan walk, talk and quack like a defined benefit plan but without the counterintuitive DB shackles, we propose requiring that companies who are successful enough to have at least 10 employees contribute 9% of pay as Australian employers do, to an account that is portable when the employee leaves work. We'd also like to propose a program that features a matching *government* contribution for those companies with nine or fewer employees, along the lines of the Universal 401(k) Plan proposed by Michael Calabrese of the New America Foundation. More than 70 million American workers don't participate in a tax-subsidized, payroll deduction saving plan and with the average Social Security benefit at about $11,000 a year, Social Security alone isn't going to replace much of these earners' "final pay" at retirement.

Calabrese observes that while 65% of fulltime workers at firms with more than 100 employees participate in retirement plans, that rate sinks to 45% at firms with fewer than 100 employees and 25% at firms employing fewer than 25. And, as Calabrese points out, tax breaks are useless if you're already in the lowest tax bracket. A deduction that's worth 35 cents on the dollar to high-bracket taxpayers is worth zero to the 35 million low-earning households that are in the 15.2% bracket.[46]

Calabrese's Universal 401(k) plan would give every employee of a small company an Individual Career Account in which the government would match voluntary contributions by workers and their employers with refundable tax credits deposited directly into their account.[47]

As is the case with Australia's version of the 401(k), the country already has an employer-based government-matching program for low-income workers in place called the "co-contribution." On top of the mandatory 9% of pay that workers at ALL employers regardless of size receive to their super accounts, Australians who earn less than $28,980 receive a $1.50 match from the government for every $1 contributed up to a total of $1,500; co-contributions reduce as income increases, phasing out completely at $58,980.[48]

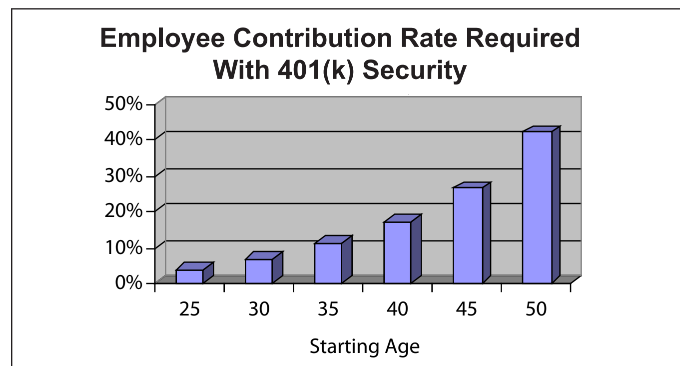
When American small business owners choose not to offer a 401(k) plan it isn't necessarily because they can't afford to or don't have the staff to handle the administrative burden but because of a misconception that their employees don't value retirement coverage. However, a recent survey of employees of small business by ShareBuilder Advisers, LLC, found nearly 60% of employees believe that retirement plans are crucial in attracting and retaining them—compared to less than 40% of employers who think so.[49]

What follows is our proposal for reform.

401k Security Act

1. **Coverage mandate:** Every employer with 10 or more employees who doesn't offer a DB plan (or whose plan is frozen to new hires) must offer a 401(k) plan and contribute 9% of pay.

2. **Disclose necessary employee contribution "co-pay":** Participants must be informed what their contribution rate should be based on their age when they start to save, based on the new requirements. For example, even with the implementation of the new 9% contribution of salary by employers, individuals who start contributing to their accounts at age 25 need to know they should contribute an additional 4 percent, another 7% at age 30, another 11.25% at age 35, another 17.25% at age 40 and another 42% at age 50.



3. **Employees working in companies with fewer than 10 employees would be enrolled in a Universal 401(k) featuring a government matching contribution.** Workers in families earning below $40,000 a year would receive a $1-per-$1 matching credit on their first $2,000 in savings; whereas workers in families earning above that level would receive a 50-cent-per-dollar match on the first $4,000 in savings. A new entity, a clearinghouse akin to the Federal Thrift Savings Plan (TSP), which manages very low-cost 401(k) style accounts for three million federal military and civilian personnel—would receive all deposits.[50] As with TSP participants, Universal account participants should have at most a choice among a small number of low-cost index funds—an opportunity that should be available to ALL 401(k) participants—but that's another story.

4. **Enable realistic catch-up contributions:** In order to enable participants in their 40s and 50s to make "catch-up contributions" that will actually enable them to catch up, there should be no ceiling on tax-deductible employee contributions so that a spouse can contribute 100% of her pay in the event that a couple is falling behind. In addition, Americans should be able to sell other assets such as their homes, as

is the case in Australia, and put the proceeds in their accounts. What's more, every employer should be required to offer after-tax accounts. According to Vanguard, these are only available to one-fifth of its customers—only the large plans. [51]

5. **No access to retiree balances until retirement:** At the same time we want employers to contribute more to nest eggs, we want to limit opportunities for employees to "shoot themselves in the foot" by tapping into vested balances before it's time to retire. There should be no loans, hardship withdrawals or ability to "cash out" when changing jobs. Nearly half of 200,000 job-changers surveyed by Hewitt Associates in 2004 cashed out of their retirement plans rather than leaving the balances in the old plan or "rolling them over" to an IRA or new plan.[52] We favor requiring an IRA rollover strategy over the employer-plan rollover because if a typical 21st century worker changes jobs every four years, they shouldn't have to keep track of multiple 401(k) account balances. An old balance is particularly difficult to track if a previous employer goes out of business, is acquired, switches administrators, etc.

6. **Balances must annuitize at retirement, ensuring a lifetime income stream.**

7. **Annuity sellers must disclose limits to product.** Any company that sells annuities or other retirement income schemes to pre-retirees must disclose to the potential customer—in plain English and bold type—that annuities are only useful if the customer has already accumulated a nest egg equal to at least 10 times their salary at retirement.

Conclusion

Create a Bipartisan Pension Dialogue

The pension crisis needs to be addressed for two reasons: Baby Boomers can't afford to retire and their kids will have fewer job opportunities the longer their parents stay in the workforce. By enabling more generous employer AND employee contributions, many Boomers can actually pull off the "catch-up" they need to retire. At the same time, by providing more generous employer contributions to 401(k) accounts along with communicating their savings requirements to Gen Xers and Yers, this group won't have to apply the brute-force catch-up that their parents did.

More importantly, we need to create a new bipartisan dialogue on retirement readiness. The "pension paternalism" approach favored by Democrats has failed because ERISA makes the requirements so onerous and counterintuitive that few corporate leaders want to start or continue a DB plan. On the other hand, the Republicans' "tax break" approach to retirement savings has failed as well because we are not a nation of savers—because we don't realize we need to be. What's more, even the most prudent savers can't afford to bankroll their entire retirement "bill" without help from their employers, especially the vast majority who wait until their 30s, 40s or later to start saving.

The Australian authorities have managed to create a compact between employers and employees alike that "we're all in this together" and continually tweak the system to improve it based on their perception of retirement readiness among population cohorts. The country that perfected Democracy should be able to do at least as well.

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