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State plans sought to save for retirement

Gail MarksJarvis
June 3, 2008

The system is not working.

Left to their own devices, millions of Americans are approaching their retirement years with little or no savings.

As a result, they will be living retirement in a state far different than the "golden years."

Already, many Americans are there. About 44 percent of retirees live on Social Security alone, which is not much. For retirees in Illinois, that means about \$13,700 a year on average, according to Dory Rand, supervising attorney for the Sargent Shriver National Center on Poverty Law.



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that would be acceptable to small employers.

Small employers often don't want the administrative fuss and costs that come with 401(k)'s.

One idea, advanced at the summit financed by the Joyce Foundation, would be simply to have employers make individual retirement accounts available at the workplace. That way employees would have a place to save without making the effort to find a broker or mutual fund away from work, a process that many people find perplexing.

One plan, said Rand, would be to have the federal government administer the IRAs the employers make available. Another would be to have states do it in much the way they administer the 529 college savings plans. In Illinois, for example, the state lets residents

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In the near future, the picture doesn't look any better. Old-style pensions, which provide some level of guaranteed income, are becoming dinosaurs. And half of Americans within 10 years of retirement age have saved \$88,000 or less, according to the Congressional Research Service.

Congress enacted legislation two years ago aimed at ensuring that Americans save more. Because people tend to ignore saving, the government gave companies with 401(k) plans the right to enroll employees automatically, remove money from paychecks and deposit it in mutual funds geared toward getting people ready for retirement.

But about 75 million Americans, half of working adults, don't have 401(k)'s, and the focus has shifted to the state level for a solution. Many work for smaller employers not offering retirement plans.

In Chicago last week, Midwestern state government leaders and advocates for low-income people discussed strategies about plans

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save on a tax-protected basis so they can accumulate money to send children to college. The state contracts with Vanguard and Oppenheimer funds, and they offer mutual funds to investors at a relatively low cost.

Similar plans for retirement are being called universal savings plans. Bills have been moving through legislatures in [California](#), [Connecticut](#) and [Washington](#).

A 25-year-old making \$25,000, who saved \$450 a year in an account protected from taxes, would end up with retirement income 88 percent higher than people relying solely on Social Security, Rand said.

"The average person earning \$25,000 doesn't think they can afford to save," Rand said. But the worker could accumulate over \$100,000 by investing just \$10 a week in an IRA at work.

Research indicates that when savings automatically are withdrawn from paychecks, people don't miss the money and continue to stay on a savings plan.

"States have an interest in making this work," said Mark Iwry, a senior adviser to the Retirement Security Project. "An ounce of prevention costs less than a pound of cure."

But advocates of the plans in California and Washington said they were harder to sell than first assumed.

Some small-business groups were leery of anything that appeared to be a mandate, even though advocates had proposed that the businesses' only involvement would be to turn payroll information over to an administrator so that records could be gathered for deductions to IRAs.

Some union leaders also have balked, fearing such programs would encourage more employers to end traditional pension plans.

Rand says her next step is to build support in Illinois.

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