Money and You: Retirement realities - fostering a culture of investing

by Carrie_Schwab_Pomerantz

In one of my first Money and You columns, I wrote about the alarming number of Americans who are ill-prepared for retirement. One of the statistics I mentioned was that about 60 percent of people age 45 or older have less than $100,000 in retirement savings, according to a 2007 Employee Benefit Research Institute study. It is a pretty scary figure when you consider just how much it costs to have a secure retirement.

My point was somewhat obvious: Retirement investing is an issue for a huge number of Americans, perhaps even most Americans. The inescapable reality is that today's workers must take responsibility for their retirement savings. In particular, they must take advantage of tax-advantaged retirement investing vehicles, including 401(k) and similar employer-sponsored plans, as well as IRAs and Roth IRAs. The decline in traditional defined-benefit pension plans and the inevitable changes in the Social Security system have put the responsibility for retirement squarely on the individual's shoulders.

Three recent surveys highlighted to me that the need to focus on this issue is even more pressing than we thought. For example, the 10th annual Black Investor Survey, co-sponsored by Ariel Mutual Funds and Charles Schwab, revealed that the need for retirement investment is especially acute among African-Americans. In fact, there is a significant gap between the savings and investing habits of blacks and whites.

As the "Black Paper" issued by the study's sponsors put it, "The results consistently show that blacks save less than whites of similar income levels and are less comfortable with stock investing." In fact, the median amount of money saved by the African-Americans surveyed was less than half that of white respondents ($48,000 vs. $100,000). For retirees, the figures are more startling: $73,000 vs. $210,000. Instead, members of the African-American community tend to invest in real estate and spend on secondary education at a higher rate than whites. Given these statistics, it isn't surprising that while 76 percent of the whites surveyed had invested in stocks or stock funds in 2007, only 57 percent of blacks did the same.

A second recent Schwab survey among people of the so-called Generation X, roughly defined as those born between 1964 and 1980, showed that nearly 45 percent say they have too much debt to even think about saving or investing. And more than a third think that they will be in debt for the rest of their lives. Finally, a recent Schwab study of investment advisers found that 61 percent of them say that having sufficient retirement savings is a constant concern of their clients.

What can we do?

While the Black Paper and the Generation X research delves into some of the causal factors for this increasing investment gap, what interests me more is what we - as a society and as individuals - can do about it. How can we break through common cultural or attitudinal barriers, and encourage every American to view the financial markets as a critical vehicle for building wealth and preparing for the long-term goals we all face, especially retirement?

I believe fervently in the power and the potential of the financial markets as an effective way to build wealth, but you can't benefit from that power and potential if you don't participate. To my mind, one of the most positive developments in the last few years is the provision in the Pension Protection Act of 2006, which encourages automatic enrollment in 401(k) plans. This simple step is powerful in that it harnesses the power of inertia and makes it work in our favor.

But we must do more. I believe that it's up to society as a whole - educators, the government, individuals and employers - to foster a culture that embraces wealth-building through financial investment. We need to educate our kids about personal finance. If I had my way, I'd make personal finance a key part of the curricula at every middle school and high school across America. We need to ensure that every employee knows about the resources available to him or her, like 401(k) plans and other tax-advantaged vehicles, and has the confidence to participate. And we must continue to make investing as simple and accessible as possible for the greatest numbers of people.

A few major companies shine above the rest. McDonald's and Exelon, in particular, have taken the issue of cultural differences to heart and tracked their employees' 401(k) investment patterns by ethnicity, revealing a gap comparable to that found in the Ariel/Schwab study. As a result of their findings, McDonald's instituted an automatic enrollment plan for its restaurant managers and created an aggressive matching program. The restaurant giant also deployed a number of resources to help participants make good investment decisions and learn about financial planning, coupled with a communications campaign to spread the word about these topics. The result? Some 95 percent of African-American store managers are now 401(k) plan participants.

In addition, many other companies are taking the opportunity to encourage all of their employees to save and invest by taking advantage of the auto-enrollment provision of the Pension Act.

So what can you do? First and foremost, you can build your own financial literacy. Use the Web, take a class or read a book. Learn how the markets work and how investing offers the potential to turn savings into wealth. Teach your kids about money, saving and investing for the future; get them started with their own savings accounts. If you know someone who should be investing but isn't, talk with them. Help them understand the benefits of compound growth and encourage them to get started themselves. If you have clout in your own company, encourage it to use auto-enrollment in the 401(k) plan.

Financial literacy is an enormous issue for millions of Americans and, by extension, for society as a whole. I encourage every one of my readers to take seriously the lessons we can cull from the Ariel/Schwab study and the Generation X research.

Yes, we must all learn to take responsibility for our own financial futures; however, I also encourage us all to take special notice of cultural and attitudinal differences to do whatever steps we can to help our friends, colleagues and neighbors help themselves.

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