The savings gap

by The Milwaukee Journal Sentinel

Seventeen-year-olds finishing high school next spring have about a one-in-three chance of having any money in a 401(k) by the time they reach retirement, a new government study has found. The study by the Government Accountability Office should spark new discussion about the fallout of the shift from pension plans to so-called defined contribution plans. Such plans give participants the most freedom to secure their own future - but only if they take advantage. Study after study shows they are not doing so.

The latest GAO report estimates that nearly 37 percent of today's 17-year-olds will have no money in a 401(k) or similar plan when they retire. For low-income workers, who are less likely to save, 63 percent will have no money in such a plan, the GAO estimates.

But one doesn't have to look into the future to see the problem. The GAO crunched figures from the Federal Reserve Board's 2004 Survey of Consumer Finances and learned that the median account balance for all workers in 401(k)-style plans was a paltry $22,800. For workers between the ages of 60 and 64, the figure was a mere $60,600. Enjoy your retirement, folks.

The study's findings suggest that companies should step up training and assistance for employees. And the findings raise again the possibility of a national 401(k) plan, partially funded at birth by the government. Sen. Jeff Sessions , R-Ala., has suggested such an approach, and it may have merit. Certainly, it's worth further discussion, though the end game must not be gutting Social Security. The pension reform bill signed into law by President Bush in 2006 makes it easier for companies to automatically enroll employees in 401(k) retirement savings plans and select investments for them. But more education is critical, especially for young people, about the need to save, to save often and to save for their entire lives. Unfortunately, the old defined benefit pension plan is gone for most workers, and they shouldn't count on Social Security payments to be as large in the future as they are now.

Reprinted from The Milwaukee Journal Sentinel â€“ CNS.