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Editorial

## Will Your Money Last?

Americans spent more than they made in 2005, sending the personal savings rate into negative territory for the first time since 1933.

Government and business should be alarmed. Many Americans do not seem to believe they are living beyond their means, as long as the value of their houses are rising. But spending freely while the house appreciates is not saving for the future. It is betting that boom-time gains will last indefinitely. They will not.

Meanwhile, traditional corporate pension plans are disappearing; half of the people with 401(k)'s have saved less than \$20,000; and about one-third of households have saved nothing for retirement.

Policy makers must act quickly to avert a crisis. To start, they should strengthen 401(k)'s, now the main retirement plan for 42 million Americans, about half of the work force.

By removing various legal obstacles facing employers, a pension reform bill moving through Congress would help employers who offer 401(k)'s to enroll more employees and to encourage higher contributions. Those are good first steps, but they're the easy part. More needs to be done to help those who are trying to save for retirement, including:

**INVESTMENT ADVICE** Employers are reluctant to provide 401(k) investment advice for fear of being held responsible if the investments go south. The Senate has passed a sensible measure to shield employers if they hire advisers who are independent, qualified and properly supervised. The House should follow suit. A proposal from John Boehner, the new majority leader, to allow mutual funds to offer advice should be rejected. It allows for a clear conflict of interest, since the fund companies that would be advising employees are among the employees' 401(k) choices.

**AUTOMATIC ROLLOVER** Employees who cash out their 401(k) plans when changing jobs — about half do — cheat themselves because it is very difficult to make up the lost savings later. Rules that require an automatic rollover — to a new employer's 401(k) or an individual retirement account — would stanch much of the bleeding.

**MAKING IT LAST** Government must help ensure that retirees do not outlive their money. For many retirees, it would be prudent to convert savings into an annuity that would guarantee a stream of income for life. But the average 401(k) balance for people in their 60's is about \$140,000, and financial companies cannot profitably offer annuities for such relatively small sums. Research suggests that the government could provide annuities for 401(k) savers who have \$50,000 to \$200,000 at modest cost.

It simply makes no sense, socially or economically, for each person to increasingly bear the risks of financing old age when that risk is more efficiently borne on the much broader shoulders of Washington and corporate America. What America needs are leaders who understand that asking ordinary citizens to

assume ever-greater risks is not the path to greater security.