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Pension Reform Bill Prods Workers To Save

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By EILEEN ALT POWELL, Associated Press

The 401(k) retirement savings plan is getting the biggest overhaul in its 25-year history.

The Pension Protection Act of 2006, which the Senate passed earlier this month and sent to President Bush for signing, could greatly raise the number of workers participating in company-sponsored savings accounts by allowing the automatic enrollment of new employees.

The legislation also will make it easier for plan sponsors to offer investment advice to 401(k) savers.

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"The changes are important for all workers, but they're especially important for younger workers," said Matt Moore, a senior analyst with the National Center for Policy Analysis in Dallas.

"As companies are moving away from traditional defined-benefit pension plans, 401(k) plans are becoming the norm."

Yet although the burden of preparing for retirement is shifting away from companies and toward workers, there have been signs that many people aren't prepared to deal with the challenge.

Many workers have failed to sign up for 401(k) plans, which are named for a section of the tax code and allow participants to set aside pretax money for use in retirement. Employers often match some of the employee contributions, usually for a total of at least 3 percent.

The changes in the pension bill not only will affect 401(k) plans, first offered in 1981, but also will apply to 403(b) plans for workers in nonprofit organizations and 457 plans, which are for government employees.

The Employee Benefit Research Institute in Washington, D.C., has found that when companies offer 401(k) plans, 20 percent of workers don't sign up - and they tend to be younger, lower-income workers who would benefit greatly.

In addition, many older workers have ended up with a lot of company stock in their portfolios, putting them at risk if something happens to their employer, or have invested so conservatively that they're losing out on market gains that could boost their nest eggs.

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The 401(k) changes in the pension reform bill are aimed at remedying some of those problems. They include:

Allowing automatic enrollment of employees in company-sponsored pension plans. Workers will have 90 days to opt out, but inertia is expected to keep this to a minimum.

Permitting automatic escalation of contributions. The goal is to set aside 3 percent of compensation by the end of the first year, 4 percent in year two, 5 percent in year three and 6 percent thereafter.

Encouraging a company dollar-for-dollar "match" for the first 1 percent of salary, then 50 cents for each additional dollar up to 6 percent, for a total of 3.5 percent.

Expanding the number of investment options to at least three, other than employer stock.

Broadening the rules under which mutual fund companies and others can offer workers personalized investment advice.

Dallas L. Salisbury, chief executive of EBRI, said the provisions to automate participation and contribution increases should get workers started saving earlier.

"This will revolutionize the 401(k) plan from something dependent on an individual taking action to a design that essentially gets people saving more and more until they take action to say, 'Stop! I want to spend!'" Salisbury said.

Research has shown, however, that "the stick factor is high" and most workers don't opt out, he added.

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