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401(k) SAVINGS IMPORTANT TO ALL

The Department of Labor recently reported that fewer US workers are contributing to their 401(k) savings plans than in previous years. That is a mistake. This also applies to non-profit organizations' 403(b) plans or state employee sponsored 457 plans. Regardless of the deferred savings plan offered by an employer, the impact of tax deferred interest or compound rates of return is a "license to steal" that should not be missed.

It is estimated that the US personal savings rate is near zero, a pathetic statement of our "spend now and save later" attitude. That means that for every worker that is saving 6 percent of his or her paycheck in a deferred savings plan, someone else is borrowing 6 percent beyond their income utilizing some form of consumer credit. That may be good as a short-term economic stimulus concept, but bad for the long-term retirement planning issues in front of our aging population.

University of Pennsylvania Professor Jeremy Siegel points out in a recent study titled, "*China and the US Social Security Crisis: The Decisions We Face*", that in most developed countries, including Europe and Japan, fertility rates have fallen below the level that keeps the population constant. But life expectancy has risen while the average age of retirement has fallen. This may sound good as a social issue but the economic impact is devastating.

In 1950, life expectancy in the US was 69, only two years more than the average retirement age (67). By 2000, the median retirement age fell to 62, while life expectancy rose to 76.5, increasing the length of retirement by almost 13 years. This increase in the number of years in retirement is a problem for Social Security, which is expected to run into deficits by 2017. With fewer workers now and in the future for every retiree, it is easy to see that a crisis is looming for retirement workers worldwide.

Professor Siegel opines that workers in year 2030 will have to postpone retirement to age 69 in order for the system to handle the extra load of the baby boomers.

The alternative of course, is for workers to save their own money in deferred savings plans to avoid being dependent (trapped) by the mandates of future government social programs. This may be easier said than done as families sometimes struggle to make ends meet.

But starting a savings plan requires only a discipline to do it. A discipline is nothing more than repeating a “procedure” over and over. A deferred employer savings plan with salary deduction is the perfect procedure to accomplish the discipline needed to save (defer) 4 percent of salary the first year and perhaps more in future years. Those who save in these plans claim they do not miss the funds if they are taken from the paycheck as an automatic deduction.

In subsequent years, the deferral percentage should be increased until the maximum \$12,000 deferral amount is attained (\$13,000 for 2004). For those over age 50, additional contributions can be added, depending upon the type of savings plan offered. The maximum deferral amount can save the average taxpayer about \$3,000 per year in income taxes. For someone in the 25 percent marginal income tax bracket, that effectively gives the taxpayer a 25 percent return on his or her money in the first year, before any investment return. That same \$3,000 deferred tax savings will also compound each year, making the whole investment more than worthwhile.

Of course, many workers are disenchanted by the drop in values experienced over the last three-year bear market. But the bear may now be hibernating, not to awaken for the next few years. Bear markets come and go, but retirement comes only once.

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