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Needed: An Easier Way to Save for Retirement

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President Clinton's renewed call this week for individual savings accounts as a way to ease growing pressures on Social Security deserves closer public scrutiny than the proposal got when it was first floated last year. For one thing, it may be the sturdiest spoke in the President's otherwise flimsy "Save Social Security" umbrella. For another, it also suggests why all such approaches to fixing under-saving for retirement are flawed.

If Congress takes up Social Security when it reconvenes this year, three personal savings proposals will be on the table—a Senate version, a House version, and the President's USA Accounts. All three spring from some widely accepted facts. Millions of Americans save too little while working to live on later. The private pension system isn't expanding so it can't pick up the slack. And Social Security might not be able to pay all promised benefits after the huge wave of Baby Boomers begins retiring around 2010.

From these facts comes the rationale for a federal savings program: Use federal dollars to prompt low- and middle- income Americans to save more for retirement by subsidizing those savings. If such incentives work, pressure on both Social Security and the private pension system will ease and national savings will rise.

All three proposals set up a federal savings program to direct help to the Americans who need it most. Copying the popular 401(k) plan, all let employees decide how much to save each year. But each approach features different incentives and subsidies, and none is easy to use or to administer.

So who gets what? Both the Senate and House proposals tuck

away about one third of each employee's annual Social Security contribution in a savings account. Under both, low- and moderate-income employees who contribute more amass federal savings dollars too. The Senate proposal awards \$100 for the first extra dollar saved and a one-for-one match for each additional dollar saved. In the House version, the first dollar contributed pulls in an additional \$150, but each dollar saved after that yields only 50 cents more. But calculating who is eligible and how much each participant can contribute is complicated under either proposal. Also, employees might have to choose between saving through Social Security or their employer's 401(k) plan and may need coaching to pick wisely.

USA Accounts skirt some of these pitfalls. Employees in a wider income range all automatically get up to \$400 in federal funds. (Additional employee savings qualify for a match that phases out as income rises.) USA Accounts also match savings by all employees who have no retirement plan at work. But there's a catch. Since USA Accounts aren't part of Social Security or the private pension system, a new federal program would have to be created to administer them.

The problem that just won't go away is administrative complexity. Savings plans seem simple, but they are complicated to run. Even if one of these proposals stimulates millions of Americans to save more—an optimistic scenario—each account will be small and expensive to administer and investment-related fees and administrative costs could substantially reduce account balances.

On balance, then, a stand-alone federal program to make retirement savers out of low- and middle-income workers just doesn't make sense. What might be for the federal government and employers to subsidize contributions into 401(k)-type plans and IRAs. Employers would welcome federal dollars to boost participation in their plans. And pouring federal dollars into savings options already up and running preserves the incentives at the heart of each proposal but keeps complexity and costs down.

Congress will face some simple questions as it tries to encourage private saving to fend off a national retirement crisis: Shouldn't federal savings incentives be targeted only to those in a position to use them? And wouldn't federal resources be better spent on stipends for poor retirees instead of on a complicated program unlikely to bolster individual savings substantially? Let's hope Congress can come up with some relatively simple answers.

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