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## **Bleak picture for retirement savings of lower-income workers**

Retirement savings has become a “hot topic” in many circles as older workers consider their retirement options. The financial crises of the past few years have affected currently retired workers in that their investments have lost value. The Baby Boomer generation may be considering retirement, but may be finding that their anticipated retirement savings may be very inadequate. Some fortunate older workers might have the benefit of a pension, but even pension plans have been unstable. A recent report from the United States Government Accountability Office (GAO) paints an even bleaker picture for lower income workers.

The members of the U.S. House of Representatives’ Committee on Ways and Means asked the GAO to examine trends in the formation of pension plans, and how the existing Saver’s Credit for low income workers might be modified to help with future retirement income as reported by Tim Takacs in *Elder Law FAX* at [www.tn-elderlaw.com](http://www.tn-elderlaw.com). The report is entitled “Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits.” The concern is that workers, especially those with lower incomes, will not have the resources needed to save for retirement.

Private pension plans generally fall into two categories. Defined contribution plans (DC), such as 401(k)s and 403(b)s, are plans to which workers make “defined contributions,” which increase in cash value. These plans are portable, but are subject to market fluctuations, and are self managed after retirement. The other type, defined benefit plans (DB) provide a fixed or “defined benefit” provided when the worker retires; however they do not accumulate cash value. This is usually what people refer to when they state that they get a “pension.”

The GAO found that the number of private pension plans increased about one percent from 2003 until 2007. However, the number of new plans was offset by plan terminations and mergers. Moreover, 90 percent of the new plans were DC plans, to which workers must make contributions. Furthermore, of the new DB plans, nearly half were set up by professional groups, primarily to defer taxable income, rather than to provide retirement income. As a result, the current structure disproportionately favors higher income workers (\$126,000 or above) as they are in a better position to contribute to DC plans as they have more disposable income to allow contributions at, or above, the statutory limits set for such plans. Of those who made tax-deferred contributions in 2007, 72 percent earned more than \$126,000 annually, while less than one percent of those who earned less than \$52,000 were able to make significant contributions.

The GAO, in its concluding observations, said that concerns have been raised about the current voluntary, tax-subsidized framework for formation of private pension plans. Despite tax incentives, private plan participation has been stalled at about 50 percent of the workforce for the last 20 years. Again, the distribution of tax benefits disproportionately favors higher income workers, and costs the federal government \$100 billion per year. Modifications to the current Saver’s Credit may spur increased retirement savings, per the report, but described increasing retirement security for low to middle income workers as a “formidable challenge.” For more information, read the full report at <http://www.gao.gov/products/GAO-11-333>.