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Plan to open up CalPERS reflects worry about inadequate saving for retirement

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Investing for retirement is the financial equivalent of eating your vegetables: It's good for you, but sometimes downright distasteful.

Now a proposal making its way through the California Legislature has people talking about whether the state can make putting aside retirement money more palatable.

The plan would let private businesses and workers funnel direct payroll deposits into a retirement investment account. The California Public Employees' Retirement System would administer the pooled money.

No one knows how many of California's 6 million workers without retirement plans would sign up. Many struggle in jobs that leave them with little money at the end of the month. The arcane language of finance can paralyze the uninitiated. And let's face it: We love buying stuff, even when we can't afford it.

"We want everything now," said Lynn Wigginton, a Sacramento certified financial planner. "All the bells and whistles, the newest car. It's a real obstacle to saving for retirement."

The savings plan could change that by making individual retirement investing as close to set-it-and-forget-it as possible.

Assembly Bill 2940 would let private-sector workers without an employer-sponsored retirement plan sign up for IRAs watched over by CalPERS. The same apparatus used to take taxes out of paychecks would channel direct deposits into the accounts, which could be carried from job to job.

The plan's supporters, including Gov. Arnold Schwarzenegger and author Assemblyman Kevin de León, D-Los Angeles, believe CalPERS is up to the task. It's already the nation's largest public pension fund, managing $250

billion in assets for 1.5 million state and local government workers.

CalPERS hasn't yet commented on the idea. The fund's staff is analyzing the proposal and should make a recommendation to the CalPERS board at its mid-May meeting.

An aging nation

All of this matters because we're getting older as a nation. In 2007, there were roughly five people between 20 and 64 for every person 65 and older. By 2030, when the youngest baby boomers turn 65, the ratio will fall to 3-to-1.

The retirement surge means more people will need things like Social Security and Medicare but relatively fewer workers will be kicking in payroll taxes to cover the bills.

"Who knows what things will look like for retirees in 20 or 30 years?" said Garry Burris, a policy analyst with the Seattle-based Economic Opportunity Institute.

That uncertainty is the driving force behind the proposal. Only 18 percent of workers are very confident about having enough money to live comfortably in retirement, according to a recent survey by the Employee Benefits Research Institute in Washington, D.C. That matches the survey's all-time low in 1993. But only 30 percent put money in an employer-sponsored account like a 401(k) and only 22 percent have a separate retirement savings account.

The California plan, with direct deposit and the lower costs that likely will go with using Cal-PERS resources, takes a stab at making it easier to invest. But will workers take a bite?

Probably not, said Mark Iwry, a senior fellow with the Brookings Institution and an expert on retirement savings. He helped craft the California plan and similar proposals in Connecticut and Washington state.

"If we got half, even a third, even a million of the 6 million Californians (without a retirement plan) to do this, it would be a breakthrough," Iwry said. "But will everyone sign up? No."

'A change in the wind'

What we're seeing, experts say, is a social shift as significant as when the American Express Co. created, in 1875, the nation's first private pension plan.

For decades, many Americans built their retirement on the dependable twin pillars of company-run pensions, called defined benefit plans, and Social Security.

Neither program asked that you do anything more than work. And when you

decided to retire you had a pretty good idea what your bank account would look like each month.

When General Motors started its employee pension fund in 1950, about 9.8 million Americans – 25 percent of the private-sector work force – were covered by a retirement plan. The percentage grew to about 50 percent by 1980, but it's flattened out since then. In 2004 about 46 percent of privately employed workers participated in a retirement plan, according to government statistics.

"And there's a change in the wind," said Brad Barber, a UC Davis finance professor. Traditional pensions, funded and tended by employers, have given way to defined contribution plans that require that workers kick in seed money – and then, based on investment options set by the company, decide where that money should go.

What the plans pay vary from worker to worker. Savvy investors who contribute more and make sound investment decisions stand to enjoy richer returns when they retire. Workers who don't invest as well – or as much – will suffer for it later.

"The good part is that these plans give people a lot of choice," Barber said. "The bad part is that they give people a lot of choice. It can be overwhelming."

Alphabet soup

Just listen to the language: 401(k). 403(b). No load fund. Mutual fund. Money market. Stock market. Bull market. Bear market. IRA. SIMPLE IRA. Roth IRA.

"Yeah, it's pretty intimidating all right," said Joe Bernardi, a 21-year-old metal fabricator who works in Rancho Cordova.

Bernardi would like to save for retirement, "but my work doesn't offer anything," he said. "Even if it did, I definitely can't afford it right now."

Investment jargon befuddles most Americans, according to a recent survey by AARP Financial Inc. Nearly three-quarters of the 1,203 adults surveyed said that financial services professionals use more jargon than car mechanics. About two-thirds, 67 percent, gave the investment industry a "C," "D" or "F" when it comes to explaining saving to consumers.

"Sometimes people do nothing because it seems so complex," said Wigginton, the financial planner. "But we're living in a time where we define our future retirement for ourselves. I tell people to just take it one dollar at a time."

Paycheck to paycheck

Higher prices for food and gas make savings more difficult, said Dallas

Salisbury, president of the Employee Benefit Research Institute, but medical expenses are the biggest culprit.

"For Americans living paycheck to paycheck, a relatively small medical issue can throw everything into turmoil," Salisbury said. "Especially savings."

Add in our penchant for spending. Personal savings as a percentage of what's left over after we've paid the bills have been a paltry 0.4 percent for the last two years, according to federal statistics. In 1992, it was 7.7 percent.

"We are a society that is oriented toward spending," said Salisbury of the benefits research institute. "Come in and get your new flat-screen TV. Buy that new car instead of driving an older one. Our culture is built on consumption, so we make it far easier to consume and go into debt than we make it for people to save."

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